Combined financial statements

Management's responsibility for combined financial reporting

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the "Caisse") are the responsibility of management. The combined financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2011.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. The Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse's objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place with regards to operations, assets and records. Moreover, the Caisse's internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

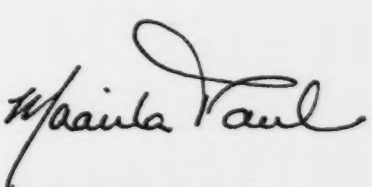
Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the "co-auditors") have audited the combined financial statements of the Caisse, and their report covers the nature and scope of the audit and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter relating to their audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2011. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the co-auditors, examines the combined financial statements and recommends their approval to the Board of Directors.

MICHAEL SABIA
President and Chief Executive Officer



MAARIKA PAUL, CA, CBV
Executive Vice-President and
Chief Financial Officer

Montréal, February 21, 2012

Independent auditors' report

To the National Assembly

Report on the combined financial statements

We have audited the accompanying combined financial statements of the Caisse de dépôt et placement du Québec, which comprise the combined statement of net assets as at December 31, 2011, and the combined statement of income and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information included in the notes to the combined financial statements.

Management's responsibility for the combined financial statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Caisse de dépôt et placement du Québec as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on other legal and regulatory requirements

As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), we report that, in our opinion, with the exception of the application of the changes to accounting policies explained in note 2B to the combined financial statements, these principles have been applied on a basis consistent with that of the preceding year.

Acting Auditor General of Québec

Michel Samson, CA auditor

Michel Samson, CA auditor

Montréal, February 21, 2012

ERNST & YOUNG LLP

Ernst & Young LLP

CA auditor permit no. 15859

Montréal, February 21, 2012

Combined statement of net assets

As at December 31

(in millions of dollars)	2011	2010
Assets		
Investments at fair value *(notes 3A, E and F)*	**185,606**	178,376
Advances to depositors	**761**	789
Investment income, accrued and receivable	**854**	933
Transactions being settled	**774**	177
Other assets *(note 4)*	**3,293**	2,922
	191,288	183,197
Liabilities		
Liabilities related to investments *(notes 3B and F)*	**28,554**	27,807
Transactions being settled	**110**	563
Other liabilities *(note 5)*	**1,162**	1,310
	29,826	29,680
Combined net assets	**161,462**	153,517
Less:		
Non-controlling interests *(note 6B)*	**2,497**	1,775
Depositors' net holdings *(note 6A)*	**158,965**	151,742

Derivative financial instruments *(note 10)*

Commitments and contingencies *(note 12)*

The accompanying notes are an integral part of the combined financial statements

For the Board of Directors,

MICHAEL SABIA

A. MICHEL LAVIGNE

Combined statement of income and changes in net assets

For years ended December 31

(in millions of dollars)	2011	2010
Investment income *(note 7A)*	**5,232**	4,945
Less:		
Operating expenses *(note 8)*	**269**	257
Expenses related to repositioning of information technology and write-offs of intangible assets	**–**	34
Net investment income	**4,963**	4,654
Gains (losses) on the sale of investments *(note 7C)*	**(482)**	1,613
Total realized income	**4,481**	6,267
Unrealized increases in value of investments and liabilities related to investments *(note 7D)*	**1,764**	11,792
Net investment results	**6,245**	18,059
Depositors' net deposits	**1,477**	2,423
Other changes in non-controlling interests *(note 6B)*	**223**	(113)
Increase in combined net assets	**7,945**	20,369
Combined net assets, beginning of year	**153,517**	133,148
Combined net assets, end of year	**161,462**	153,517
Attributable to depositors		
Net investment results *(note 7E)*	**6,245**	18,059
Less:		
Net investment results attributable to non-controlling interests *(note 7E)*	**499**	328
Net investment results attributable to depositors *(note 7E)*	**5,746**	17,731
Depositors' net deposits	**1,477**	2,423
Increase in depositors' net holdings	**7,223**	20,154
Depositors' net holdings, beginning of year	**151,742**	131,588
Depositors' net holdings, end of year	**158,965**	151,742

The accompanying notes are an integral part of the combined financial statements

Combined funds notes to financial statements

As at December 31, 2011

01 CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec (the "Caisse"), a legal person established in the public interest within the meaning of the *Civil Code*, is governed by the Act respecting *the Caisse de dépôt et placement du Québec (R.S.Q., chapter C-2)* (the "Act"). It receives all funds whose deposit is provided under the Act. Pursuant to the federal and provincial income tax acts, the Caisse is not subject to income taxes.

COMBINED FINANCIAL STATEMENTS

The combined financial statements comprise the accounts of the subsidiaries controlled by the Caisse, the General Fund, the individual funds and the specialized portfolios.

GENERAL FUND (CONSOLIDATED STATEMENTS)

The General Fund comprises all treasury operations (management of demand and term deposits, and corporate financing of the Caisse).

INDIVIDUAL FUNDS

The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The individual funds are for the use of the following depositors:

Fund 300: Québec Pension Plan Fund, administered by the Régie des rentes du Québec;

Fund 301: Government and Public Employees Retirement Plan, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 302: Pension Plan of Management Personnel, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 303: Individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 305: Pension Plan for Elected Municipal Officers, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence, administered by Aon Conseil;

Fund 307: Fonds d'assurance automobile du Québec, administered by the Société de l'assurance automobile du Québec;

Fund 311: Supplemental Pension Plan for employees of the Québec construction industry – general account – administered by the Commission de la construction du Québec;

Fund 312: Supplemental Pension Plan for employees of the Québec construction industry – retirees account – administered by the Commission de la construction du Québec;

Fund 313: Supplemental Pension Plan for employees of the Québec construction industry – supplementary account – administered by the Commission de la construction du Québec;

Fund 314: Deposit insurance fund, administered by the Autorité des marchés financiers;

Fund 315: Compte dédié (previously Fonds d'assurance-prêts agricoles et forestiers) administered by La Financière agricole du Québec;

Fund 316: Retirement Plans Sinking Fund – RREGOP, administered by the ministère des Finances, Government of Québec;

Fund 317: Retirement Plans Sinking Fund – PPMP, administered by the ministère des Finances, Government of Québec;

Fund 318: Fonds d'amortissement des autres régimes de retraite, administered by the ministère des Finances, Government of Québec;

Fund 326: Crop Insurance Fund, administered by La Financière agricole du Québec;

Fund 327: Fédération des producteurs de bovins du Québec (inactive since September 1, 2010);

Fund 328: Survivor 's pension plan, administered by the Secrétariat du Conseil du trésor, Government of Québec;

Fund 329: Fonds d'assurance-garantie, administered by the Régie des marchés agricoles et alimentaires du Québec;

CONSTITUTION AND OPERATIONS (cont.)

Fund 330: Fonds de la santé et de la sécurité du travail, administered by the Commission de la santé et de la sécurité du travail;

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels – administered by the Office de la protection du consommateur;

Fund 333: Fonds d'indemnisation des clients des agents de voyages, administered by the Office de la protection du consommateur;

Fund 341: Education and Good Governance Fund – Cash fund, administered by the Autorité des marchés financiers;

Fund 342: Régime de retraite de l'Université du Québec administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343: Parental Insurance Fund, administered by the Conseil de gestion de l'assurance parentale;

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by Aon Conseil;

Fund 348: Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec administered by the Comité de retraite du Régime complémentaire de retraite des employés syndiqués de la CCQ (inactive since January 1, 2011);

Fund 351: Generations Fund, administered by the ministère des Finances, Government of Québec;

Fund 353: Superannuation Plan for the Members of the Sûreté du Québec – caisse participants – administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 354: Superannuation Plan for the Members of the Sûreté du Québec – caisse employeurs – administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 361: Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 363: Régime de retraite des employés de la Ville de Laval, administered by the Comité du Régime de retraite des employés de la Ville de Laval;

Fund 367: Fonds d'information sur le territoire, administered by the ministère des Finances, Government of Québec (created October 1, 2011);

Fund 368: Education And Good Governance Fund – Capitalized fund – administered by the Autorité des marchés financiers;

Fund 369: Accumulated Sick Leave Fund, administered by the ministère des Finances, Government of Québec; and

Fund 373: Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by the Commission administrative des régimes de retraite et d'assurances (created July 1, 2010).

SPECIALIZED PORTFOLIOS

The specialized portfolios are pooled funds for participation deposits of the various funds. The specialized portfolios are the following:

- Real Estate (710) (consolidated statements)
- Canadian Equity (720)
- Foreign Equity – Hedged (730) (dissolved April 1, 2010)
- EAFE Equity (Europe, Australasia and Far East) (730) (created April 1, 2010)
- U.S. Equity – Hedged (731) (dissolved April 1, 2010)
- U.S. Equity (731) (created April 1, 2010)
- Emerging Markets Equity (732)
- Foreign Equity – Unhedged (733) (dissolved April 1, 2010)
- U.S. Equity – Unhedged (734) (dissolved April 1, 2010)
- Global Equity (735) (created April 1, 2010)
- Short-term Investments (740)
- Real Estate Debt (750) (consolidated statements)
- Bonds (760)
- Québec International (761)
- Real Return Bonds (762)
- Commodity Financial Instruments (763) (dissolved December 1, 2010)
- Long-term Bonds (764)
- Hedge Funds (770) (consolidated statements)
- Asset Allocation (771)
- ABTNs (772)
- Private Equity (780) (consolidated statements)
- Investments and Infrastructure (781) (consolidated statements) (dissolved July 1, 2010)
- Infrastructure (782) (consolidated statements) (created July 1, 2010)

02
ACCOUNTING POLICIES

A) PRESENTATION

The combined financial statements of the Caisse are prepared in accordance with Canadian generally accepted accounting principles. The Accounting Standards Board authorized a postponement of the application of International Financial Reporting Standards until 2014 for investment companies. The Caisse is considered an investment company pursuant to Accounting Guideline AcG-18, "Investment Companies," of Part V of the Handbook of the Canadian Institute of Chartered Accountants (CICA). Accordingly, all the investments of the Caisse as well as liabilities related to investments are presented at fair value with all fair value variations recognized in the results.

The Caisse consolidates its subsidiaries when they do not meet some of the conditions provided in AcG-18. All transactions and balances between related parties have been eliminated. The summary financial statements for the specialized portfolios are found in the section "Supplementary information."

The preparation of the financial statements requires that management make estimates and assumptions, which have an impact on determination of the fair value of assets and liabilities as well as revenues and expenses during the financial year covered by the combined financial statements. Actual results may differ from such estimates.

A statement of cash flows is not presented, as it would provide no further useful information for the comprehension of cash flows during the year.

B) CHANGES TO ACCOUNTING POLICIES

The CICA has published Section 1582, "Business Combinations," Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-controlling interests," which apply to the fiscal years starting January 1, 2011. These sections require, among other things, that non-controlling interests be presented as a separate item in combined net assets rather than as liabilities and that they no longer be applied against net investment results because they are presented separately in combined net assets. Adoption of these sections has no effect on depositors' net holdings, but has given rise to reclassification of non-controlling interests (see notes 6B and 7E).

C) INVESTMENTS AND RELATED OPERATIONS

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

Advances to depositors, investment income, accrued and receivable, other assets and other liabilities presented separately are valued at the cost which approximates fair value given their short-term maturity.

Transaction costs that are directly attributable to the acquisition and sale of investments are included in income and applied against Gains (losses) on the sale of investments. Transaction costs include commissions, stock exchange fees and professional and legal fees related to investment operations.

FIXED-INCOME SECURITIES

Fixed-income securities comprise short-term investments, bonds, asset-backed term notes (ABTNs), mortgages, commercial paper payable, term notes, mortgage loans payable and other loans payable. Acquisitions and sales of fixed-income securities are recorded at the transaction date, except for mortgages, which are recorded at the settlement date.

i) VALUATION METHOD

The fair value of fixed-income securities with the exception of mortgages is determined by the market price, when such a value is available. When a market price is not available, the fair value of the securities is established according to valuation methods used in capital markets, such as discounting of future cash flows, or according to similar transactions on an arm's length basis. These valuations are supported by observable or non-observable input data, such as interest rate yield curves, credit spreads or discount rates. The valuation method for ABTNs is discussed in note 3E.

The fair value of mortgages is determined from the present value of future contractual cash flows at the market interest rate. The rate is that which could be obtained for loans or securities with similar conditions and maturities. Where the timing of future cash flows cannot be estimated in a reasonably reliable fashion, the fair value corresponds either to the fair value of any collateral, less expected realization costs and any amount legally owed to borrowers, or to the observable market price for the mortgages.

The fair value of most fixed-income securities is reviewed biannually by independent external firms.

The valuation methods are applied on a consistent basis.

ACCOUNTING POLICIES (cont.)

ii) INVESTMENT INCOME AND GAINS (LOSSES) ON THE SALE OF INVESTMENTS

Investment income from fixed-income securities includes amortization of the premium or the discount, which makes it possible to maintain a constant effective yield until maturity. Income from mortgages is reduced by operation expenses and financial costs of commercial mortgage-backed securities (CMBS) and is recorded under the item Investment income – Fixed-income securities.

Gains (losses) on the sale of investments represent the difference between the amortized cost and the net realizable value on the sale of investments. The amortized cost corresponds to the acquisition cost adjusted to reflect amortization of the premium or the discount.

VARIABLE-INCOME SECURITIES

Variable-income securities comprise equities and convertible securities, investment funds as well as real estate holdings. Acquisitions and sales of equities and convertible securities are recorded at the transaction date, whereas acquisitions and sales of real estate holdings are recorded at the settlement date.

i) VALUATION METHOD

The fair value of listed equities and convertible securities is determined from prices on major stock exchanges. For unlisted equities and convertible securities, prices are provided by recognized financial institutions or valuations are made according to commonly used valuation methods, such as the earnings multiples of comparable listed companies or discounting of cash flows, or on the basis of similar transactions on an arm's length basis. These valuations are supported by observable or non-observable input data, such as EBITDA multiples, price/earnings multiples, price/book value ratios, discount rates and future cash flows. The valuations of unlisted equities and convertible securities are reviewed biannually by a valuation committee made up of independent experts or by independent external firms.

The fair value of investment funds is determined from the fair value provided by the general partner or the administrator, in accordance with commonly used valuation methods.

Real estate holdings include partial or full ownership of income properties through interests in a company or a partnership. The fair value of income properties included in real estate holdings is determined and certified biannually by external, recognized and independent chartered real estate appraisers. The valuation techniques used for income properties are based mainly on three recognized methodologies: discounting of cash flows at the market rate, comparison with recent similar market transactions and capitalization of earnings. These valuations are supported by observable or non-observable input data, such as leases, operating expenses, rates of return and discount rates. The valuations are established in accordance with commonly used professional valuation standards.

The valuation methods are applied on a consistent basis.

ii) INVESTMENT INCOME AND GAINS (LOSSES) ON THE SALE OF INVESTMENTS

Dividend income is recognized when the Caisse obtains the right to the dividend, generally on the ex-dividend date. Income from real estate holdings is reduced by operating expenses, operation expenses and loan financial expenses, and is recorded under the item Investment income – Variable-income securities.

Gains (losses) on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost of investments corresponds to the acquisition cost, with the exception of the cost of investments in joint ventures, which are recorded on an equity basis.

DERIVATIVE FINANCIAL INSTRUMENTS

In managing its investments, the Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded under the item Investments at fair value, whereas those whose fair value is unfavourable are recorded under the item Liabilities related to investments.

ACCOUNTING POLICIES (cont.)

i) VALUATION METHOD

For over-the-counter derivative financial instruments, prices are provided by recognized financial institutions or valuations are made from similar transactions on an arm's length basis or with recognized, commonly used models. The models used include discounting of future cash flows at the current rate of return and the Black-Scholes model. These models require the use of assumptions regarding the amount and timing of future cash flows and the current rate of return. The assumptions are prepared with observable and non-observable input data, such as interest rate yield curves, credit spreads and foreign exchange rates as well as the volatility and correlation of equity prices, commodity prices and interest rates. The fair value estimates of most over-the-counter derivative financial instruments are reviewed biannually by independent external firms. The fair value of listed derivative financial instruments, if any, is determined from prices on major stock exchanges.

The valuation methods are applied on a consistent basis.

ii) INVESTMENT INCOME AND GAINS (LOSSES) ON THE SALE OF INVESTMENTS

Investment income as well as gains (losses) on derivative financial instruments is included with investment income and gains (losses) on the sale of investments depending on the underlying investments.

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

The Caisse conducts securities-borrowing operations involving short-term investments and bonds to cover short sales or to generate additional income. These securities-borrowing operations are recorded in Securities acquired under reverse repurchase agreements under the item Investments at fair value. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Caisse conducts securities-lending operations involving short-term investments and bonds to generate cash flow liquidity or additional income. These securities-lending operations are recorded in Securities sold under repurchase agreements under the item Liabilities related to investments. Interest paid on repurchase agreements is applied against Investment income – Fixed-income securities.

SHORT SELLING OF SECURITIES

Short selling of securities represents the commitment by the Caisse to purchase securities from third parties to cover its positions. Interest expenses related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, whereas costs related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains (losses) on commitments related to short selling of short-term investments and bonds are recorded under the item Gains (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded under the item Gains (losses) on the sale investments – Variable-income securities.

LENDING AND BORROWING OF SECURITIES

The Caisse conducts securities-lending and -borrowing operations involving equities to cover short selling or to generate additional income. Such transactions are not derecognized or recorded in net assets because the assigner retains a right to the transferred shares. Investment income from lending of securities is included under the item Investment income – Variable-income securities.

HIERARCHY OF FAIR VALUE

The Caisse's financial instruments are classified according to the following hierarchy:

- Level 1: Calculation of the fair value of the instrument is based on prices (not adjusted) quoted on active markets for identical assets or liabilities.
- Level 2: Calculation of the fair value of the instrument is based on data other than the quoted prices contemplated in level 1, which are observable directly (in the form of prices) or indirectly (determined from prices). This level includes instruments whose valuation is based on prices quoted on markets that are not active for identical instruments and instruments whose valuation is based on prices observed for similar instruments as well as valuation techniques based on assumptions that take into account observable market data.
- Level 3: Calculation of the fair value of the instrument uses data that are not based on observable market data (non-observable data). This level includes instruments whose valuation is based on prices observed for similar instruments, adjusted to reflect the differences between the instruments being valued and the available market data. This level also includes instruments whose valuation is based on valuation techniques using assumptions that take into account market data that are observable but are adjusted significantly to reflect the specific characteristics of the instrument being valued.

ACCOUNTING POLICIES (cont.)

The classification of financial instruments in the levels of the hierarchy is established at the time of the initial valuation of the instrument and reviewed on each subsequent valuation date. Transfers between the hierarchical levels are measured at fair value at the start of each year.

Quantitative information on the hierarchy of fair value is given in note 3F.

D) ADMINISTERED PROPERTY AND PROPERTIES UNDER MANAGEMENT

The Caisse and its subsidiaries administer and manage properties entrusted to them by clients and on their behalf. These properties are not included in the Combined statement of net assets of the Caisse. The Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

E) FOREIGN CURRENCY TRANSLATION

The fair value of investments as well as any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

To present in the Combined statement of income and changes in net assets the amount of gains (losses) on the sale of investments or unrealized gains (losses), the cost of investments in equities and that of real estate holdings from integrated foreign operations and the amortized cost of investments in short-term investments, bonds and mortgages are translated at the rate of exchange prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized Real Estate portfolio, which is translated at the average rate for the year.

F) TRANSFERS OF RECEIVABLES

The Caisse occasionally securitizes or transfers mortgages by selling them directly to companies or through a conduit, which subsequently issues securities to investors.

Such transactions are recorded as sales where the Caisse is deemed to have surrendered control over such assets and to have received consideration other than beneficial interests in the transferred assets, in accordance with Accounting Guideline AcG-12 "Transfers of Receivables." At the time of securitization or transfer, no beneficial interest in the mortgages is retained. Any gains or losses deriving from such transactions are recorded under Gains (losses) on the sale of investments – Mortgages and Bonds.

Companies under common control usually continue to service transferred loans. Since servicing fees are market-based, no servicing assets or liabilities are recorded at the date of transfer.

G) OPERATING EXPENSES

Operating expenses represent all expenses related to portfolio management and administration, with the exception of those related to external management. Operating expenses are recorded under a separate line item in the Combined statement of income and changes in net assets. Expenses related to management of the specialized Real Estate and Real Estate Debt portfolios are included in operating expenses. Expenses related to the real estate and real estate debt subsidiaries are deducted from real estate holdings investment income and mortgages investment income, respectively.

H) EXTERNAL MANAGEMENT FEES

External management fees represent amounts paid to external financial institutions, principally institutional fund managers active on international stock markets, for the management of Caisse funds on behalf of the Caisse. Basic external management fees and management fees related to the performance of external managers are deducted from Investment income and Gains (losses) on the sale of investments, respectively.

03
INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENTS

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	**515**	**549**	2,357	2,370
Foreign	**1,083**	**1,446**	1,614	1,802
	1,598	**1,995**	3,971	4,172
Bonds				
Issued or guaranteed by:				
Canadian Government	**16,165**	**15,276**	21,637	21,149
Province of Québec	**9,507**	**8,448**	8,801	8,305
Other Canadian provinces	**1,499**	**1,337**	1,658	1,586
Municipalities and other Canadian agencies	**1,481**	**1,416**	1,280	1,247
Canadian government corporations	**13,056**	**12,104**	11,998	11,322
U.S. government	**1,174**	**1,172**	1,379	1,641
Other foreign governments	**308**	**300**	17	17
Mortgage securities				
Canadian	**187**	**178**	213	230
Foreign	**–**	**116**	68	314
Canadian corporations	**10,605**	**10,178**	8,831	8,906
Foreign corporations	**1,978**	**2,216**	1,678	2,197
Inflation-indexed securities				
Canadian	**1,318**	**1,139**	975	895
Foreign	**100**	**105**	–	–
	57,378	**53,985**	58,535	57,809
ABTNs *(note 3E)*	**7,901**	**11,785**	7,850	11,910
Mortgages				
Canadian	**6,754**	**6,417**	5,886	5,780
Foreign	**748**	**858**	1,667	2,932
	7,502	**7,275**	7,553	8,712
Total fixed-income securities	**74,379**	**75,040**	77,909	82,603
Variable-income securities				
Equities and convertible securities				
Canadian	**17,082**	**16,227**	17,180	14,640
U.S.	**27,281**	**28,334**	17,379	20,230
Foreign and emerging markets	**29,290**	**31,721**	26,398	25,496
Hedge funds	**3,088**	**3,141**	2,964	3,002
	76,741	**79,423**	63,921	63,368
Real estate holdings				
Canadian	**13,501**	**9,688**	12,880	10,482
Foreign	**8,532**	**9,344**	8,610	9,816
	22,033	**19,032**	21,490	20,298
Total variable-income securities	**98,774**	**98,455**	85,411	83,666

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	**6,056**	**6,056**	8,761	8,762
Foreign	**1,919**	**1,926**	1,007	1,017
Amount pertaining to derivative financial instruments				
Canadian	**2,957**	**1,171**	2,132	1,157
Foreign	**1,521**	**117**	3,156	120
	12,453	**9,270**	15,056	11,056
Total investments	**185,606**	**182,765**	178,376	177,325

B) LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	**670**	**670**	338	338
Foreign	**–**	**–**	629	632
Commercial paper payable				
Canadian	**1,017**	**1,017**	1,017	1,017
Term notes				
Canadian	**2,110**	**1,998**	2,044	1,998
Foreign	**6,662**	**6,288**	6,051	6,287
Short selling of securities				
Canadian	**6,187**	**5,842**	6,267	5,444
Foreign	**3,648**	**3,575**	2,498	2,543
Mortgage loans payable				
Canadian	**497**	**458**	679	635
Foreign	**1,720**	**1,758**	2,156	2,208
Other loans payable				
Canadian	**1,978**	**2,003**	1,710	1,816
Foreign	**1,260**	**1,264**	1,283	1,222
Amount pertaining to derivative financial instruments				
Canadian	**1,215**	**5**	470	–
Foreign	**1,590**	**93**	2,665	110
	28,554	**24,971**	27,807	24,250

Term notes are redeemable at maturity, have an optional prepayment clause at the option of the issuer and are guaranteed by the assets of the Caisse.

Mortgage loans are repayable half-yearly, quarterly, monthly or at maturity and are guaranteed by real estate holdings. Some mortgage loans may also be guaranteed by cash and others have a redemption clause.

Most of the other loans payable are repayable at maturity. Those related to investments in ABTNs have a prepayment clause prorated to net cash flows received on investments in ABTNs and are guaranteed by them.

The fair value of the real estate holdings that guarantee the mortgage loans and some other loans payable is $5,851 million ($6,221 million in 2010).

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

C) JOINT VENTURES

As at December 31, the item Investments – Real estate holdings includes investments in joint ventures recorded at fair value. The details of these investments are as follows:

(in millions of dollars)	2011	2010
Investments in joint ventures	**8,939**	8,156
Real estate holdings	**13,409**	12,745
Mortgages	**–**	2
Short-term investments	**–**	6
Investment income, accrued and receivable	**6**	78
Other assets	**427**	388
	13,842	13,219
Mortgage loans payable	**4,382**	4,400
Other loans payable	**–**	36
Derivative financial instruments	**1**	2
Other liabilities	**505**	569
Non-controlling interests	**15**	56
	4,903	5,063

D) BREAKDOWN OF NET HOLDINGS

The following table gives a summary of the Caisse's net holdings as at December 31:

(in millions of dollars)	2011	2010
Investments *(note 3A)*	**185,606**	178,376
Other assets	**5,682**	4,821
Total assets	**191,288**	183,197
Liabilities related to investments *(note 3B)*	**28,554**	27,807
Other liabilities	**1,272**	1,873
Non-controlling interests *(note 6B)*	**2,497**	1,775
Depositors' net holdings *(note 6A)*	**158,965**	151,742

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

The following table gives the breakdown of net holdings at fair value according to the specialized portfolios available to depositors as at December 31:

(in millions of dollars)	2011	2010
Fixed income		
Short-term investments	**6,762**	3,376
Bonds	**41,600**	40,038
Long-term Bonds	**3,758**	3,598
Real Estate Debt	**6,680**	8,607
	58,800	55,619
Inflation-sensitive investments		
Real Return Bonds	**1,288**	939
Infrastructure	**5,751**	4,333
Real Estate	**18,205**	16,771
	25,244	22,043
Equities		
Canadian Equity	**18,564**	19,312
Global Equity	**10,855**	5,873
Québec International	**4,547**	8,442
U.S. Equity	**8,120**	5,761
EAFE Equity	**9,102**	9,733
Emerging Markets Equity	**5,886**	5,803
Private Equity	**15,746**	17,468
	72,820	72,392
Other investments		
Hedge Funds	**3,270**	3,303
Asset Allocation	**1,221**	633
ABTNs	**(2,520)**	(2,613)
	1,971	1,323
Overlay strategies and treasury operations	**130**	365
Depositors' net holdings	**158,965**	151,742

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E) ABTNs AND RELATED FINANCIAL INSTRUMENTS

Asset-backed term notes (ABTNs) represent debt backed by a variety of financial instruments. The underlying instruments are essentially credit default swaps as well as assets given as collateral for MAV 1 and MAV 2, while MAV 3 contains traditional assets, such as residential and commercial mortgage debt. In addition, the Caisse uses derivative financial instruments, such as interest rate swaps and credit default swaps, to obtain an economic hedge in order to reduce the risk of loss inherent in a fluctuation of the fair value of the ABTNs as well as eventual collateral calls.

The ABTNs as well as other related financial instruments consist of the following as at December 31:

(in millions of dollars)	2011			2010		
	Fair value	**Unrealized increases (decreases) in value**	**Cost**	Fair value	Unrealized increases (decreases) in value	Cost
Investments						
MAV 1[1]	**7,185**	**(2,689)**	**9,874**	7,412	(2,507)	9,919
MAV 2[1]	**116**	**(3)**	**119**	116	(3)	119
MAV 3[1]	**195**	**(180)**	**375**	280	(175)	455
Funding facility	**(522)**	**(522)**	**–**	(449)	(449)	–
Subtotal	**6,974**	**(3,394)**	**10,368**	7,359	(3,134)	10,493
ABTNs excluded from the restructuring agreement	**927**	**(490)**	**1,417**	491	(926)	1,417
Total ABTNs	**7,901**	**(3,884)**	**11,785**	7,850	(4,060)	11,910
Amount pertaining to derivative financial instruments[2]	**1,031**	**(109)**	**1,140**	1,092	(48)	1,140
Total investments	**8,932**	**(3,993)**	**12,925**	8,942	(4,108)	13,050
Liabilities related to investments[2]	**1,778**	**11**	**1,767**	1,528	16	1,512
	7,154	**(4,004)**	**11,158**	7,414	(4,124)	11,538

1. "Master asset vehicles," or "MAV."
2. Included under the items in notes 3A and B.

MAV 1 ABTNs and certain ABTNs excluded from the restructuring agreement consist essentially of credit default swaps. The fair value of the credit default swaps is established with valuation techniques based as much as possible on observable market data, such as credit spreads, correlation factors and an illiquidity premium, which is calculated from the spread between the bid and ask prices for similar financial instruments in the market. For the other ABTNs, the Caisse has established fair values using a valuation technique based on a financial model whose assumptions use as much as possible observable market data, such as interest rates and credit quality. Moreover, a favourable court judgment was rendered in the fall of 2011 in respect of litigation involving an ABTN excluded from the restructuring agreement. After an analysis of the conclusions of the judgment, the Caisse considered this development favourable in determining the fair value of the related investment.

As at December 31, 2011, the funding facility, which represents commitments in respect of MAV 1, totals $6,167 million ($6,167 million in 2010) and matures in July 2017. The Caisse establishes the fair value of this funding facility by applying a valuation technique based on CDX.IG index tranches plus a financing premium.

A 5.31% (3.45% in 2010) downward variation of credit spreads would involve an increase in the fair value of the ABTNs net of the economic hedge of approximately $62 million ($43 million in 2010). A 5.31% (3.45% in 2010) upward variation, however, would result in a decrease of approximately $68 million in the fair value ($45 million in 2010).

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

F) HIERARCHY OF FAIR VALUE

The following tables summarize the allocation of the fair value of the investments and the liabilities related to investments among the three levels of the hierarchy as at December 31:

(in millions of dollars)				2011
	Level 1	Level 2	Level 3	Total
Investments				
Fixed-income securities				
Short-term investments	–	1,387	211	1,598
Bonds	–	54,169	3,209	57,378
ABTNs	–	–	7,901	7,901
Mortgages	–	6,139	1,363	7,502
Total fixed-income securities	–	61,695	12,684	74,379
Variable-income securities				
Equities and convertible securities	49,096	2,118	25,527	76,741
Real estate holdings[1]	–	–	22,033	22,033
Total variable-income securities	49,096	2,118	47,560	98,774
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	–	7,975	–	7,975
Amount pertaining to derivative financial instruments	38	3,378	1,062	4,478
	49,134	75,166	61,306	185,606
Liabilities related to investments				
Securities sold under repurchase agreements	–	670	–	670
Commercial paper payable	–	1,017	–	1,017
Term notes	–	8,772	–	8,772
Short selling of securities	7,226	2,549	60	9,835
Mortgage loans payable	–	497	1,720	2,217
Other loans payable	–	3,229	9	3,238
Amount pertaining to derivative financial instruments	37	2,680	88	2,805
	7,263	19,414	1,877	28,554

1. Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

(in millions of dollars)				2010
	Level 1	Level 2	Level 3	Total
Investments				
Fixed-income securities				
Short-term investments	–	3,714	257	3,971
Bonds	–	56,021	2,514	58,535
ABTNs	–	–	7,850	7,850
Mortgages	–	4,543	3,010	7,553
Total fixed-income securities	–	64,278	13,631	77,909
Variable-income securities				
Equities and convertible securities	35,917	3,363	24,641	63,921
Real estate holdings[1]	–	–	21,490	21,490
Total variable-income securities	35,917	3,363	46,131	85,411
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	–	9,768	–	9,768
Amount pertaining to derivative financial instruments	13	4,146	1,129	5,288
	35,930	81,555	60,891	178,376
Liabilities related to investments				
Securities sold under repurchase agreements	–	967	–	967
Commercial paper payable	–	1,017	–	1,017
Term notes	–	8,095	–	8,095
Short selling of securities	6,979	1,694	92	8,765
Mortgage loans payable	–	680	2,155	2,835
Other loans payable	–	2,980	13	2,993
Amount pertaining to derivative financial instruments	37	2,993	105	3,135
	7,016	18,426	2,365	27,807

1. Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

LEVEL 3: RECONCILIATION BETWEEN OPENING AND CLOSING BALANCES

For the financial instruments classified in level 3 of the hierarchy, the details of the reconciliation between the opening and closing balances are as follows:

(in millions of dollars)	2011								
	Opening balance	Total gains (losses) recorded in results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from level 3	Closing balance	Total gains (losses) attributable to investments held at year-end, recorded in results[2]
Short-term investments	257	40	2,261	(326)	–	(2,115)	94	211	(149)
Bonds	2,514	137	101	(166)	906	(166)	(117)	3,209	172
ABTNs	7,850	151	–	–	–	(100)	–	7,901	175
Mortgages	3,010	160	–	(1,037)	601	(992)	(379)	1,363	53
Equities and convertible securities	24,641	2,500	3,269	(4,794)	–	–	(89)	25,527	2,144
Real estate holdings	21,490	1,660	1,076	(2,193)	–	–	–	22,033	1,592
Net amount pertaining to derivative financial instruments[3]	1,024	(84)	14	33	–	1	(14)	974	(140)
Short selling of securities	(92)	(6)	53	–	–	–	(15)	(60)	(8)
Mortgage loans payable	(2,155)	(4)	–	–	(6)	445	–	(1,720)	24
Other loans payable	(13)	–	–	–	–	4	–	(9)	–

1. Recorded under the items Investment income, Gains (losses) on the sale of investments and Unrealized increases (decreases) in value.
2. Recorded under the items Investment income and Unrealized increases (decreases) in value.
3. Derivative assets and derivative liabilities are recorded on a net basis in the reconciliation between opening and closing balances.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

(in millions of dollars)

	2010								
	Opening balance	Total gains (losses) recorded in results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from level 3	Closing balance	Total gains (losses) attributable to investments held at year-end, recorded in results[2]
Short-term investments	1,028	(516)	799	(17)	11	(1,048)	–	257	(124)
Bonds	2,793	(454)	829	(1,084)	400	(262)	292	2,514	(75)
ABTNs	7,249	775	–	–	–	(174)	–	7,850	1,042
Mortgages	5,064	499	–	(724)	286	(1,781)	(334)	3,010	196
Equities and convertible securities	22,870	2,608	2,774	(3,524)	–	–	(87)	24,641	864
Real estate holdings	19,942	1,197	1,592	(1,241)	–	–	–	21,490	969
Net amount pertaining to derivative financial instruments[3]	13	(312)	1,142	(4)	–	185	–	1,024	(104)
Short selling of securities	(272)	(28)	124	(102)	–	15	171	(92)	(1)
Mortgage loans payable	(2,900)	266	–	–	(10)	489	–	(2,155)	253
Other loans payable	(313)	(11)	–	–	(15)	326	–	(13)	361

1. Recorded under the items Investment income, Gains (losses) on the sale of investments and Unrealized increases (decreases) in value.
2. Recorded under the items Investment income and Unrealized increases (decreases) in value.
3. Derivative assets and derivative liabilities are recorded on a net basis in the reconciliation between opening and closing balances.

LEVEL 3: VALUATION AT FAIR VALUE BASED ON REASONABLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on non-observable data or observable market data adjusted significantly to reflect the specific characteristics of the instrument being valued. Although the Caisse believes that its valuations at fair value are appropriate, the use of reasonably possible alternative assumptions could result in different fair values. It is possible that different entities will arrive at different valuations of the fair value of the same financial instrument on the same measurement date. Even so, the valuation techniques and input data used by such entities can meet the objective of fair value measurement. The fact that different valuations of fair value exist reflects the judgment and assumptions applied, as well as the uncertainty surrounding fair value measurement of instruments.

The analysis that follows shows the sensitivity of the valuations to reasonable alternative assumptions of the non-observable data. Equities and convertible securities are sensitive mainly to the EBITDA multiple and the discount rate used in the valuation, which may reasonably range from 6.0 to 10.0 and from 8.0% to 14.0%, respectively. Mortgage loans payable are sensitive mainly to the credit spread, which may reasonably vary by about 1.0%. The fair value of real estate holdings is sensitive mainly to the capitalization rate or the discount rate used in the valuation of the property, which may reasonably vary by about 0.3%. The fair value of the investment funds for which the Caisse does not have access to information on the underlying investment is based on the fair value provided by the general partner or the external manager. Accordingly, given that no additional information indicates that it is necessary to adjust such fair value, no other reasonably possible assumptions can be used.

Substitution of reasonable alternative assumptions for the main assumptions would result in an increase of approximately $776 million ($839 million in 2010) or a decrease of approximately $1,306 million ($1,077 million in 2010) in the total fair value of the level 3 instruments, excluding ABTNs, real estate investments and investment funds. The impact of such substitution on the fair value of the ABTNs is described in note 3E.

04
OTHER ASSETS

(in millions of dollars)	2011	2010
Cash	**2,999**	2,646
Accounts receivable	**161**	156
Fixed assets	**133**	120
	3,293	2,922

05
OTHER LIABILITIES

(in millions of dollars)	2011	2010
Interest payable on derivative financial instruments	**89**	248
Investment income, accrued and payable	**156**	178
Income tax liabilities, payable and future	**242**	253
Other liabilities	**675**	631
	1,162	1,310

06
DEPOSITORS' NET HOLDINGS AND NON-CONTROLLING INTERESTS

A) DEPOSITORS' NET HOLDINGS

Demand and term deposits bear interest at variable and fixed rates, respectively, and constitute indebtedness on the part of the Caisse toward the depositors. The average annual rates paid on demand and term deposits are 1.0% and 1.7%, respectively (0.6% and 0.8% in 2010).

During the year, the Caisse paid $3 million ($3 million in 2010) of interest on both demand and term deposits.

Participation deposits are expressed in units. Each unit gives its holder a proportionate share in the net equity and the net income of a particular fund. At the end of each monthly period for the General Fund and the individual funds, the net investment income and the gains (losses) on the sale of investments are allocated to participation deposit holders. At the opening of the following period, the amounts allocated are paid out to the depositors' demand deposit accounts. Generally, the balance of demand deposits is reinvested in participation deposits at the opening of each monthly period as a function of the depositors' investment policies. The number of issued units of participation deposits depends on fair value determined at the end of the previous monthly period.

During the year, the Caisse paid $5,966 million ($2,660 million in 2010) in net income to participation deposit holders.

DEPOSITORS' NET HOLDINGS AND NON-CONTROLLING INTERESTS (cont.)

(in millions of dollars)	2011	2010
Caisse's indebtedness toward depositors		
Demand deposits	**121**	197
Term deposits	**141**	160
Net income to be paid out to participation deposit holders	**272**	393
	534	750
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	**142,284**	137,123
Units issued	**8,072**	7,771
Units cancelled	**(495)**	(2,610)
Balance, end of year	**149,861**	142,284
Gains not allocated on the sale of investments	**9,448**	10,954
Unrealized decreases in value of investments and liabilities related to investments net of non-controlling interests	**(878)**	(2,246)
	158,431	150,992
Depositors' net holdings	**158,965**	151,742

The Caisse defines its capital as the net holdings of the holders of participation deposits, demand deposits and term deposits. The Caisse is not subject to external capital requirements.

The mission of the Caisse is to receive moneys on deposit as provided by law and to manage them with a view to achieving an optimal return on depositors' capital within the framework of their investment policies. Through its wholly owned subsidiary CDP Financial Inc., the Caisse issues capital securities to optimize financing costs and to fund certain investments.

B) NON-CONTROLLING INTERESTS

Non-controlling interests represent interests of non-controlling shareholders in consolidated subsidiaries that are not directly or indirectly attributable to the Caisse. Non-controlling interests are recorded at their share of the fair value of the investment and are allocated a proportional share of combined net assets and net investment results. Changes in the Caisse's interest in a subsidiary that do not affect control thereof are recorded as transactions on combined net assets.

As at December 31, the details of non-controlling interests are as follows:

(in millions of dollars)	2011	2010
Balance, beginning of year	**1,775**	1,560
Net investment results attributable to non-controlling interests *(note 7E)*	**499**	328
Other changes in non-controlling interests**	**223**	(113)
Balance, end of year	**2,497**	1,775

** In 2011, the other changes are due mainly to the sale of the Caisse's interest in consolidated subsidiaries, an increase in the non-controlling interest in a consolidated subsidiary and a consolidated subsidiary's buyback of its own shares. In 2010, the other changes are due mainly to the Caisse's acquisition of additional interests in consolidated subsidiaries.

As at December 31, the details of the cost and fair value of non-controlling interests are as follows:

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Canadian	**1,998**	**1,656**	1,480	1,380
Foreign	**499**	**705**	295	655
	2,497	**2,361**	1,775	2,035

07
INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENT INCOME

(in millions of dollars)	2011	2010
Fixed-income securities		
Short-term investments	**258**	165
Bonds	**1,946**	2,129
Mortgages	**364**	451
	2,568	2,745
Variable-income securities		
Equities and convertible securities	**1,657**	1,268
Real estate holdings *(note 7B)*	**957**	924
	2,614	2,192
Other income	**57**	13
Less:		
External management fees	**7**	5
	5,232	4,945

Investment income – Fixed-income securities was increased by $79 million ($28 million in 2010) as net income (net expenses) related to securities acquired (sold) under reverse repurchase (repurchase) agreements. In addition, short-term investments were reduced by $11 million ($6 million in 2010) as interest expense on commercial paper, and Bonds were reduced by $311 million ($289 million in 2010) as interest expense on term notes.

B) NET INCOME FROM REAL ESTATE HOLDINGS

(in millions of dollars)	2011	2010
Income from real estate holdings	**2,734**	2,855
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	**1,269**	1,352
Operation expenses	**83**	77
Loan financial expenses	**426**	514
	1,778	1,943
Other income	**1**	12
	957	924

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

C) GAINS (LOSSES) ON THE SALE OF INVESTMENTS

(in millions of dollars)	2011	2010
Fixed-income securities		
Short-term investments	**398**	(314)
Bonds	**1,511**	(659)
ABTNs	**(24)**	(488)
Mortgages	**(960)**	(925)
	925	(2,386)
Variable-income securities		
Equities and convertible securities	**(1,074)**	3,818
Real estate holdings	**(260)**	313
	(1,334)	4,131
Less:		
Transaction costs of investments	**71**	125
External management fees	**2**	7
	(482)	1,613

The amount of $482 million of losses ($1,613 million of gains in 2010) on the sale of investments recorded in the Combined statement of income and changes in net assets includes $898 million of foreign exchange losses ($852 million of foreign exchange gains in 2010).

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

D) UNREALIZED INCREASES IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2011	2010
Fixed-income securities		
Short-term investments	**(301)**	118
Bonds	**1,884**	3,183
Mortgages	**1,250**	1,723
Securities acquired under reverse repurchase agreements	**4**	7
ABTNs	**115**	994
	2,952	6,025
Variable-income securities		
Equities and convertible securities	**(2,962)**	5,044
Real estate holdings	**1,800**	1,074
	(1,162)	6,118
Total investments	**1,790**	12,143
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	**3**	230
Term notes	**676**	80
Short selling of securities	**(360)**	(34)
Mortgage loans payable	**9**	132
Other loans payable	**16**	6
Derivative financial instruments	**(318)**	(63)
	26	351
	1,764	11,792

The unrealized increases in value in the amount of $1,764 million ($11,792 million in 2010) recorded in the Combined statement of income and changes in net assets includes unrealized increases in value of $1,565 million related to foreign exchange (unrealized decreases in value of $1,668 million related to foreign exchange in 2010).

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E) NET INVESTMENT RESULTS ATTRIBUTABLE TO DEPOSITORS AND NON-CONTROLLING INTERESTS

(in millions of dollars)	2011			2010		
	Depositors	**Non-controlling interests**	**Total**	Depositors	Non-controlling interests	Total
Investment income	**5,142**	**90**	**5,232**	4,850	95	4,945
Less:						
Operating expenses	**269**	**–**	**269**	257	–	257
Expenses related to repositioning of information technology and write-offs of intangible assets	**–**	**–**	**–**	34	–	34
Net investment income	**4,873**	**90**	**4,963**	4,559	95	4,654
Gains (losses) on the sale of investments	**(495)**	**13**	**(482)**	1,582	31	1,613
Total realized income	**4,378**	**103**	**4,481**	6,141	126	6,267
Unrealized increases (decreases) in value of investments and liabilities related to investments	**1,368**	**396**	**1,764**	11,590	202	11,792
Net investment results	**5,746**	**499**	**6,245**	17,731	328	18,059

08 OPERATING EXPENSES

(in millions of dollars)	2011	2010
Salaries and emnployee benefits	**139**	122
Information technology and professional services	**51**	59
Data services and subscriptions	**12**	13
Premises and equipment	**17**	16
Depreciation of fixed assets	**26**	21
Other	**13**	14
	258	245
Safekeeping of securities	**11**	12
	269	257

09
IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS

The Caisse has implemented a number of policies, guidelines and procedures to oversee its operations.

Risk management is based on an integrated risk management policy adopted by the Board of Directors. This policy, which is revised on a regular basis, is intended to promote a risk management culture and ensure stringent risk management practices to help the Caisse carry out its mission on behalf of its depositors. More specifically, the policy defines risk management governance, establishes the acceptable level of risk so as to avoid excessive loss, links the level of risk to the target value added and aims for an efficient allocation of risk.

Governance of risk management is based on three levels of control:

1. Portfolio managers, who are primarily responsible for managing the risks related to operations under their purview;
2. The Risk Committee (RC), a subcommittee of the Executive Committee, with assistance from the Risk Department and the Policies and Compliance Senior Vice-Presidency; and
3. The Board of Directors, its Audit Committee and its Risk Management Committee, as well as Internal Audit.

The policy includes reporting mechanisms for each of these levels. It also includes a framework for outsourcing management of investments, management of operational risks and management of derivative financial instruments.

To ensure the objectivity and rigour required to manage risks, teams that are independent of the portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies applying to the specialized portfolios.

The financial risks defined in the integrated risk management policy include the following:

a) Market risk;
b) Credit risk;
c) Counterparty risk related to derivative financial instruments; and
d) Financing-liquidity risk.

Investment policies are designed to oversee the activities performed by the portfolio managers. For each specialized portfolio, an investment policy establishes the philosophy, management type, investment universe, benchmark index, value-added target and risk oversight, including concentration and risk limits. The managers must abide by the limits on their investment operations.

A) MARKET RISK

Market risk represents the risk of financial loss arising from changes in the value of financial instruments. Such value is affected by changes in certain market variables, such as interest rates, exchange rates, share prices and commodity prices. The risk derives from the volatility in the price of a financial instrument, which itself results from the volatility of such market variables.

The Caisse manages all market risks according to an integrated approach. The major factors contributing to risk, such as sectors, countries and issuers, are taken into account.

The Caisse may use derivative financial instruments traded on exchanges or negotiated directly with banks and securities dealers, to manage market risks.

The Caisse measures its market risk using the method known as Value at Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and its correlations. VaR is a statistical estimate of a portfolio's potential loss according to a predetermined confidence level during a given exposure period. The VaR of the market is estimated with a 99% confidence level over an exposure period of one year. The VaR calculated by the Caisse therefore presents the level of loss that a portfolio should reach or exceed in 1% of cases. The Caisse estimates VaR for each instrument in its specialized portfolios and aggregates the information for the overall portfolio.

The Caisse uses the historical-simulation method to estimate VaR. This method is based essentially on the assumption that the future will be similar to the past. It requires that the series of historical data on all the risk factors needed to estimate the returns on instruments be available. In the absence of historical data, alternative methods are used. A horizon of 1,500 days of observation of risk factors, such as variations in exchange rates, interest rates and financial asset prices, is used to estimate the volatility of returns and the correlation between asset returns. As at December 31, 2010, the Caisse used a 99% confidence level and a 1,300-day horizon to calculate VaR. The comparable VaR was recalculated on a 1,500-day horizon.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The Caisse calculates two types of risk: absolute risk and active risk. The absolute risk, or absolute VaR, of the Caisse's benchmark portfolio (target portfolio of the depositors as a whole) is the result of the risk of the benchmark indexes of the asset classes in the portfolio. For example, should the depositors elect to increase the weight of equities in their respective benchmark portfolios, such risk would increase automatically because of the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (consisting of the actual investments) corresponds to the risk (volatility) of the positions in the Caisse's overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated with the same method but they relate to different portfolios, namely the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by depositors.

Active risk, or VaR related to active management, represents the possibility that the Caisse will record a return different from that of its benchmark portfolio as a result of active management of its overall portfolio. The higher the active risk, the more the absolute return expected from the overall portfolio will differ from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio and the active risk and absolute risk of the overall portfolio are measured on a regular basis and are subject to various limits.

As at December 31, the overall portfolio's absolute risk and active risk, according to a 99% confidence level and a 1,500-day horizon, are as follows:

ABSOLUTE RISK OF THE OVERALL PORTFOLIO

(as a %)	2011	2010
Fixed income	**10.2**	10.0
Inflation-sensitive investments	**41.5**	35.7
Equities	**47.0**	47.2
Other investments[1]	**1.5**	2.2
Overall risk	**29.9**	31.4

ACTIVE RISK OF THE OVERALL PORTFOLIO

(as a %)	2011	2010
Fixed income	**1.2**	1.2
Inflation-sensitive investments	**16.5**	10.2
Equities	**4.7**	5.7
Other investments[1]	**1.5**	2.1
Overall risk	**3.7**	4.2

1. VaR for Other investments category is presented as a percentage of net assets of the Caisse.

FOREIGN EXCHANGE RISK

Foreign exchange risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of variations in foreign currency exchange rates. This risk is integrated into the overall measurement of VaR.

To manage foreign exchange risk, the Caisse also uses instruments negotiated with banks. The maturities of these instruments generally range from one to 12 months for forward contracts and options, and from one to two years for foreign currency swaps. On maturity, new derivative financial instruments are negotiated to maintain effective long-term management of the foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The allocation of net investments denominated in currencies is as follows as at December 31:

(in millions of dollars) **2011**

	Currency[a]						
	Canadian dollar	U.S. dollar	Euro	Pound sterling	Other	Subtotal	Total
Investments							
Fixed-income securities	**68,905**	**3,327**	**882**	**294**	**971**	**5,474**	**74,379**
Equities and convertible securities	**16,905**	**31,594**	**7,812**	**6,044**	**14,386**	**59,836**	**76,741**
Real estate holdings	**13,501**	**3,292**	**3,658**	**646**	**936**	**8,532**	**22,033**
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	**6,056**	**1,665**	**254**	**–**	**–**	**1,919**	**7,975**
Amount pertaining to derivative financial instruments	**2,957**	**849**	**349**	**80**	**243**	**1,521**	**4,478**
	108,324	**40,727**	**12,955**	**7,064**	**16,536**	**77,282**	**185,606**
Liabilities related to investments							
Conventional products[b]	**12,459**	**9,821**	**2,955**	**186**	**328**	**13,290**	**25,749**
Amount pertaining to derivative financial instruments	**1,215**	**999**	**295**	**49**	**247**	**1,590**	**2,805**
	13,674	**10,820**	**3,250**	**235**	**575**	**14,880**	**28,554**
Net investments	**94,650**	**29,907**	**9,705**	**6,829**	**15,961**	**62,402**	**157,052**

(in millions of dollars) 2010

	Currency[a]						
	Canadian dollar	U.S. dollar	Euro	Pound sterling	Other	Subtotal	Total
Investments							
Fixed-income securities	71,267	4,643	604	303	1,092	6,642	77,909
Equities and convertible securities	16,676	22,359	7,210	5,048	12,628	47,245	63,921
Real estate holdings	12,880	3,351	3,839	635	785	8,610	21,490
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	8,761	1,007	–	–	–	1,007	9,768
Amount pertaining to derivative financial instruments	2,118	2,792	191	90	97	3,170	5,288
	111,702	34,152	11,844	6,076	14,602	66,674	178,376
Liabilities related to investments							
Conventional products[b]	12,042	9,408	2,735	453	34	12,630	24,672
Amount pertaining to derivative financial instruments	470	2,252	246	33	134	2,665	3,135
	12,512	11,660	2,981	486	168	15,295	27,807
Net investments	99,190	22,492	8,863	5,590	14,434	51,379	150,569

a. Investments are recorded under the currency they are denominated in and are translated into Canadian dollars.
b. Conventional products include liabilities related to investments with the exception of the amount pertaining to derivative financial instruments.

The impact of translation of the fair value of foreign currency investments into Canadian dollars included under the item Gains (losses) on the sale of investments and under Unrealized increases (decreases) in value of investments and liabilities related to investments is favourable by $790 million (unfavourable by $2,403 million in 2010). The impact of exchange rate hedging related to a portion of such investments is unfavourable by $123 million (favourable by $1,587 million in 2010). The net impact on net investment results is favourable by $667 million (unfavourable by $816 million in 2010).

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All interest-bearing assets and liabilities as well as their effective rates are shown in the table presenting the exposure to liquidity risk. This risk is integrated into the overall measurement of VaR.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or foreign exchange risk), whether such changes derive from the characteristics of the instrument itself or of its issuer, or from elements affecting all similar financial instruments traded on the market. This risk is integrated into the overall measurement of VaR.

B) CREDIT RISK

Credit risk is the possibility of a loss of fair value in the event that a borrower, endorser, guarantor or counterparty does not honour its obligation to repay a loan or to fulfill any other financial commitment, or sees its financial situation deteriorate. Sources of credit risk include fixed-income securities, derivative financial instruments, provision of financial collateral and lending commitments.

Analysis of credit risk includes the probability of default and the recovery rate on debt securities held by the Caisse, as well as monitoring of changes in the credit quality of issuers or groups of issuers whose securities are held in all the portfolios of the Caisse.

Analysis of concentration measures the fair value of a group of financial products, particularly fixed-income and variable-income securities, related to a single issuer or to a group of issuers[1] with similar characteristics (region, sector and credit rating).

The concentration limit by group of issuers is 3% of the Caisse's total assets, with the exception of securities issued by the Government of Canada, the Government of Québec or another Canadian province or territory, as well as by their departments and agencies, which are not subject to concentration limits. Sovereign issuers rated AAA are also excluded from this concentration limit. Specific concentration limits also apply to investments in emerging markets. Concentration by issuer is monitored on a monthly basis or on initiation of a transaction requiring approval from the Risk Committee.

The concentration by credit rating of the Caisse's groups of issuers is as follows as at December 31:

	2011	2010
	Value as a % of investments[2]	
Credit rating:[3]		
AAA – AA	**19.2**	23.1
A	**25.4**	22.1
BBB	**12.1**	9.1
BB or lower	**2.9**	3.1
No credit rating:		
Real estate assets	**16.0**	17.3
ABTNs	**0.9**	0.6
Private Equity	**5.1**	4.1
Private investment funds and hedge funds	**7.3**	7.9
Mortgages and mortgage securities	**4.6**	4.2
Other	**6.5**	8.5
	100.0	100.0

1. A group of issuers is a number of issuers under the control of a parent company.
2. The percentage of investments represents net positions by group of issuers.
3. Credit ratings are obtained from main recognized credit rating agencies and are aggregated according to an algorithm developed in house. For the purposes of this concentration, only long-term credit ratings from main agencies are used.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

In the table above, the groups of issuers for which no credit rating is available are categorized. For most of these groups, the absence of a credit rating from the main recognized credit rating agencies is due to the private nature of the investments, the absence of any debt, restructuring of the investments or a combination of these elements. Most of the issuers, however, are evaluated with an internal rating system that is used to closely monitor changes in the credit cycle. The system includes exposure limits by sector and country (or region) and by external credit rating (no limit for internal credit ratings).

In 2011, 180 groups of issuers whose securities are held by the Caisse received a credit upgrade from the main credit rating agencies, while 154 others received a downgrade. The Caisse frequently monitors changes in credit ratings by the agencies and compares them with the internal credit ratings when they are available.

In the case of mortgages with no assigned credit rating, the analysis of credit risk is based in part on the loan-to-value ratio. In this ratio, the amount of the loan is divided by the fair value of any asset received as collateral on the subscription date or the date funds were granted, or at any other time during the term of the loan.

The table below shows the breakdown of mortgages as at December 31:

	2011	2010
	Value as a % of mortgages	
Loan-to-value ratio		
0 to 55%	**40.0**	26.5
55 to 65%	**30.3**	20.5
65 to 75%	**27.2**	35.7
75 to 85%	**1.2**	10.6
More than 85%	**1.3**	6.7
	100.0	100.0

Credit risk is measured by the fair value of investments before collateral or other credit upgrades are taken into account. For off-balance-sheet items, the value taken into account to determine maximum exposure to credit risk corresponds to the amount guaranteed or incurred.

The maximum exposure to credit risk is as follows as at December 31:

(in millions of dollars)	**2011**	2010
Investments		
Fixed-income securities	**74,379**	77,909
Amounts receivable with respect to investments	**12,453**	15,056
	86,832	92,965
Off-balance-sheet		
Collateral pledged *(note 13)*	**8,474**	8,940
Collaterals and loan guarantees *(note 12)*	**789**	1,322
Funding facility *(note 12)*	**6,167**	6,167
	15,430	16,429
Total maximum exposure	**102,262**	109,394

In reality, this exposure is less because the Caisse takes various measures to mitigate credit risk, such as the taking of guarantees (refer to note 13).

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

C) COUNTERPARTY RISK RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

Over-the-counter derivative financial instruments give rise to counterparty risk, because they are negotiated by private contract without being traded through a clearing house. Counterparty risk corresponds to the credit risk from current or potential exposure arising from transactions involving this type of instrument in the event that the counterparty becomes unable to respect the conditions in the contracts.

To limit its exposure to counterparty risk arising from transactions involving over-the-counter derivative financial instruments, the Caisse carries out transactions with financial institutions whose credit rating is established by recognized credit rating agencies and whose operational limits are set by management. Moreover, the Caisse concludes legal agreements based on the standards of the International Swaps and Derivatives Association (ISDA), which allows it to benefit from the offset between the amounts at risk and the exchange of collateral to limit its exposure to this risk.

This risk is measured by counterparty, pursuant to the legal agreement in effect, from which it is possible to calculate the net exposure occasioned by all over-the-counter derivative financial instruments and by the collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, pursuant to the legal agreement in effect. Potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments to $435 million ($301 million in 2010), in respect of 61 active counterparties (68 in 2010).

D) FINANCING-LIQUIDITY RISK

Financing-liquidity risk corresponds to the possibility that the Caisse may not always be able to fulfill the commitments related to its financial liabilities without having to obtain funds at abnormally high prices or having to sell assets. It also corresponds to the risk that the Caisse may not be able to sell investments quickly or to purchase investments without having a significant unfavourable effect on the price of the investment in question.

Analysis of compliance with established rules is monitored on a monthly basis, and the liquidity status is determined daily. The Caisse uses various scenario simulations to estimate the potential impact of various market events on its liquidity. Managers evaluate the liquidity of the markets on which the Caisse obtains financing for its operations. They also ensure that the Caisse is active on various financial markets and maintains relationships with the recognized credit rating agencies that rate the Caisse as well as with capital providers.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The summary of maturities at par value of investments and liabilities related to investments as at December 31 is as follows:

(in millions of dollars)	2011						2010
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Effective interest rate %	Total	Effective interest rate %
Fixed-income securities							
Short-term investments							
Canadian	**480**	**58**	**–**	**538**	**1.9**	2,416	1.9
Foreign	**1,329**	**2**	**–**	**1,331**	**2.6**	1,820	2.6
	1,809	**60**	**–**	**1,869**	**2.4**	4,236	2.2
Bonds							
Issued or guaranteed by:							
Canadian government	**20**	**8,871**	**5,578**	**14,469**	**1.8**	20,113	2.6
Province of Québec	**472**	**400**	**6,826**	**7,698**	**3.6**	7,616	4.2
Other Canadian provinces	**34**	**30**	**1,165**	**1,229**	**4.1**	1,472	4.1
Municipalities and other Canadian agencies	**202**	**765**	**450**	**1,417**	**4.1**	1,253	4.5
Canadian government corporations	**201**	**5,132**	**5,700**	**11,033**	**3.2**	10,549	3.4
U.S. government	**–**	**195**	**770**	**965**	**3.0**	1,381	3.7
Other foreign governments	**–**	**1**	**267**	**268**	**4.2**	17	4.9
Mortgage securities							
Canadian	**40**	**121**	**15**	**176**	**5.6**	246	7.7
Foreign	**–**	**111**	**7**	**118**	**–**	330	6.2
Canadian corporations	**169**	**2,861**	**7,085**	**10,115**	**5.2**	8,762	5.0
Foreign corporations	**51**	**1,791**	**447**	**2,289**	**7.8**	2,045	8.7
Inflation-indexed securities							
Canadian	**–**	**8**	**706**	**714**	**1.1**	590	1.6
Foreign	**–**	**–**	**99**	**99**	**3.1**	–	–
	1,189	**20,286**	**29,115**	**50,590**	**3.5**	54,374	3.7
ABTNs	**421**	**1,084**	**10,373**	**11,878**	**–**	11,967	–
Mortgages							
Canadian	**1,320**	**2,625**	**2,475**	**6,420**	**3.8**	5,782	4.6
Foreign	**391**	**179**	**288**	**858**	**4.9**	2,945	7.5
	1,711	**2,804**	**2,763**	**7,278**	**3.9**	8,727	5.6
	5,130	**24,234**	**42,251**	**71,615**	**3.5**	79,304	3.9
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	**6,057**	**–**	**–**	**6,057**	**1.0**	8,763	1.0
Foreign	**1,919**	**–**	**–**	**1,919**	**–**	1,007	0.1
	7,976	**–**	**–**	**7,976**	**0.8**	9,770	0.9

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

(in millions of dollars)	2011						2010
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Effective interest rate %	Total	Effective interest rate %
Liabilities related to investments							
Securities sold under repurchase agreements	**670**	**–**	**–**	**670**	**0.7**	967	0.4
Commercial paper payable	**1,019**	**–**	**–**	**1,019**	**1.1**	1,019	1.1
Term notes	**–**	**3,036**	**5,046**	**8,082**	**3.8**	7,968	3.8
Short selling of securities	**–**	**392**	**1,799**	**2,191**	**2.3**	1,631	1.5
Mortgage loans payable	**31**	**1,625**	**560**	**2,216**	**4.6**	2,843	4.4
Other loans payable	**1,771**	**234**	**1,290**	**3,295**	**1.1**	2,997	0.9
	3,491	**5,287**	**8,695**	**17,473**	**2.9**	17,425	2.8

The Caisse is a party to various commitments and issues financial guarantees that can have an impact on its liquidity (refer to notes 3E, 12 and 13).

10
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying asset, and which do not require holding or delivering the underlying asset itself. The underlying may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal or crude oil).

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

- Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.
- A swap is a transaction whereby two parties agree to exchange financial flows on predetermined conditions that include a notional amount and a term.
- An option is a contract that is negotiated by mutual agreement or traded on an organized market and that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity date.
- A warrant is a contract that enables the purchase of an underlying at a price established by the contract and according to the maturity stated therein.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments.

Derivative financial instruments that are traded on exchanges or negotiated with banks and securities dealers are used to manage the interest rate and market risks of the total investment portfolio.

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

A) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)				2011	2010
		Fair value			
	Notional amount	Assets	Liabilities	Net amount	Net amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	**4,246**	**50**	**48**	**2**	171
Forward contracts					
Purchases	**6,400**	**156**	**65**	**91**	(68)
Sales	**25,059**	**455**	**275**	**180**	542
Over-the-counter options					
Purchases	**241**	**26**	**–**	**26**	–
Sales	**185**	**–**	**4**	**(4)**	–
	36,131	**687**	**392**	**295**	645
Interest rate and market risk management					
Interest rate and foreign currency swaps	**52,542**	**2,033**	**2,014**	**19**	284
Credit default swaps	**42,697**	**1,073**	**70**	**1,003**	1,096
Equity and convertible securities swaps	**20,896**	**504**	**185**	**319**	120
Commodity swaps	**59**	**5**	**4**	**1**	(3)
Futures contracts	**7,993**	**31**	**32**	**(1)**	(28)
Forward contracts	**2,342**	**9**	**16**	**(7)**	(15)
Over-the-counter options					
Purchases	**3,590**	**77**	**–**	**77**	65
Sales	**3,075**	**–**	**86**	**(86)**	(86)
Exchange-traded options					
Purchases	**814**	**15**	**–**	**15**	24
Sales	**301**	**–**	**6**	**(6)**	(10)
Warrants	**101**	**44**	**–**	**44**	61
	134,410	**3,791**	**2,413**	**1,378**	1,508
Total derivative financial instrument contracts	**170,541**	**4,478**	**2,805**	**1,673**	2,153

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

B) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENT MATURITIES

(In millions of dollars)				2011	2010
	Notional amount – Maturity				
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Notional amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	**2,128**	**1,986**	**132**	**4,246**	2,365
Forward contracts					
Purchases	**6,400**	**–**	**–**	**6,400**	2,272
Sales	**24,205**	**854**	**–**	**25,059**	16,932
Over-the-counter options					
Purchases	**241**	**–**	**–**	**241**	158
Sales	**185**	**–**	**–**	**185**	34
	33,159	**2,840**	**132**	**36,131**	21,761
Interest rate and market risk management					
Interest rate and foreign currency swaps	**8,657**	**22,371**	**21,514**	**52,542**	84,770
Credit default swaps	**9,804**	**32,798**	**95**	**42,697**	42,321
Equity and convertible securities swaps	**20,190**	**706**	**–**	**20,896**	17,262
Commodity swaps	**59**	**–**	**–**	**59**	74
Futures contracts	**7,888**	**105**	**–**	**7,993**	14,432
Forward contracts	**2,317**	**25**	**–**	**2,342**	8,154
Over-the-counter options					
Purchases	**2,558**	**1,032**	**–**	**3,590**	6,534
Sales	**2,602**	**473**	**–**	**3,075**	2,619
Exchange-traded options					
Purchases	**814**	**–**	**–**	**814**	772
Sales	**301**	**–**	**–**	**301**	454
Warrants	**17**	**84**	**–**	**101**	115
	55,207	**57,594**	**21,609**	**134,410**	177,507
Total derivative financial instrument contracts	**88,366**	**60,434**	**21,741**	**170,541**	199,268

(In millions of dollars)				2011	2010
	Fair value – Maturity				
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Fair value
Derivative financial instruments					
Assets	**1,297**	**1,758**	**1,423**	**4,478**	5,288
Liabilities	**649**	**1,014**	**1,142**	**2,805**	3,135
Net amount	**648**	**744**	**281**	**1,673**	2,153

11
TRANSFERS OF RECEIVABLES

The Caisse has put in place a program to syndicate some of its mortgages. Pursuant to these transactions, the Caisse assumes the role of administrator of the mortgages sold and thus maintains a relationship with clients. During the year ended December 31, 2011, the Caisse carried out various syndication operations in the amount of $48 million ($231 million in 2010). Syndication gains and losses are not recorded separately because the amounts involved are not significant.

No securitization activities were carried out in 2011 and 2010.

12
COMMITMENTS AND CONTINGENCIES

Given the nature of its operations, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments that will be settled in the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, guarantees and loan guarantees consist in providing guarantees to financial institutions and corporations regarding future income deriving from the sale of investments and transactions on derivative financial instruments as well as repayment of borrowings by investee companies. Guarantees related to the repayment of loans have no specific maturity date, except in some cases where the terms range from one to five years.

(in millions of dollars)	**2011**	2010
Commitments to buy investments	**7,182**	6,902
Guarantees and loan guarantees	**789**	1,322
ABTNs[1]	**6,167**	6,167
	14,138	14,391

1. For a description of the commitments related to ABTNs, see note 3E.

13
COLLATERALS

In the normal course of business, the Caisse pledges financial assets as collateral for securities borrowed, securities sold under repurchase agreements and transactions involving derivative financial instruments. The counterparty is authorized to sell or pledge as collateral certain securities in the absence of default by the Caisse. On certain conditions, the Caisse may have to pledge additional collateral if collateral already pledged has lost value.

The following table presents the fair value of the collateral pledged by the Caisse as at December 31:

(in millions of dollars)	**2011**	2010
Collateral pledged for		
Securities borrowed	**7,138**	6,905
Securities sold under repurchase agreements	**671**	967
Over-the-counter derivative financial instruments	**220**	–
Exchange-traded derivative financial instruments	**445**	1,068
	8,474	8,940

The Caisse receives financial assets as collateral for securities lent, securities acquired under reverse repurchase agreements and transactions involving derivative financial instruments. The Caisse is authorized to sell or pledge certain securities in the absence of default by the counterparty. The Caisse is obliged to return such securities to the counterparties. If the value of the collateral received decreases, the Caisse may in certain cases request additional collateral.

The following table presents the fair value of the collateral received by the Caisse as at December 31:

(in millions of dollars)	**2011**	2010
Collateral received for		
Securities lent	**1,872**	2,108
Securities acquired under reverse repurchase agreements	**8,000**	9,784
Over-the-counter derivative financial instruments	**1,916**	1,948
	11,788	13,840

14
COMPARATIVE FIGURES

Certain figures from the 2010 financial statements have been reclassified to conform to the presentation adopted in 2011.

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios

(in millions of dollars)	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
Consolidated net assets as at December 31	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–
Bonds	–	–	**49,905.9**	51,495.2	**3,761.7**	3,571.5	–	–
Mortgages	–	–	–	–	–	–	**6,067.3**	6,609.2
Mortgage securities	–	–	–	–	–	–	**186.8**	281.0
Short-term investments	–	–	**1,588.5**	2,979.2	–	–	**28.1**	1,048.1
Notes receivable from entities under common control	–	–	–	–	**734.0**	741.0	–	–
Securities acquired under reverse repurchase agreements	**7,934.2**	3,209.2	**4,301.4**	10,791.8	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	24.7
ABTNs	–	–	–	–	–	–	–	–
	7,934.2	3,209.2	**55,795.8**	65,266.2	**4,495.7**	4,312.5	**6,282.2**	7,963.0
Demand deposits in the General Fund	–	167.1	**3,336.8**	–	–	–	**29.9**	–
Other assets	–	–	**1,298.0**	1,273.6	**46.6**	43.2	**636.3**	1,065.5
	7,934.2	3,376.3	**60,430.6**	66,539.8	**4,542.3**	4,355.7	**6,948.3**	9,028.5
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	**10,739.4**	5,030.5	**733.8**	741.0	–	–
Notes payable to entities under common control	–	–	**2,278.2**	12,318.9	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	13.4
Short selling of securities	–	–	**3,999.6**	4,611.2	–	–	–	–
Derivative financial instruments	–	–	**1,495.6**	2,811.9	–	–	**65.7**	103.3
	–	–	**18,512.8**	24,772.5	**733.8**	741.0	**65.7**	116.7
Advances from the General Fund	**1,171.9**	–	–	979.3	**44.3**	5.9	–	18.5
Other liabilities	**6.6**	3.1	**395.5**	880.0	**17.2**	22.8	**242.1**	186.3
	1,178.5	3.1	**18,908.3**	26,631.8	**795.3**	769.7	**307.8**	321.5
Consolidated net assets	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,640.5**	8,707.0
Less:								
Non-controlling interests	–	–	–	–	–	–	**33.0**	71.1
Net holdings of funds	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,607.5**	8,635.9
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	**47.9**	18.8	**1,384.6**	1,677.2	**149.2**	141.4	**696.4**	609.7
Other income	–	–	**6.3**	–	–	–	–	–
	47.9	18.8	**1,390.9**	1,677.2	**149.2**	141.4	**696.4**	609.7
Operating expenses	**0.5**	0.5	**45.2**	39.1	**2.4**	1.6	**8.8**	7.1
Expenses related to repositioning of information technology and write-offs of intangible assets	–	0.1	–	7.1	–	0.2	–	0.4
Income before the following items	**47.4**	18.2	**1,345.7**	1,631.0	**146.8**	139.6	**687.6**	602.2
Interest on notes payable to entities under common control	–	–	**47.3**	82.9	–	–	–	–
Interest on loans payable	–	–	–	–	–	–	–	–
Net investment income (loss)	**47.4**	18.2	**1,298.4**	1,548.1	**146.8**	139.6	**687.6**	602.2
Gains (losses) on sale of investments	–	0.2	**1,402.1**	672.8	**148.0**	192.2	**(1,041.5)**	(3,007.4)
Unrealized increases (decreases) in value of investments and liabilities related to investments	**(0.6)**	(0.1)	**1,280.3**	939.9	**333.5**	58.7	**1,374.5**	3,797.2
Net investment results	**46.8**	18.3	**3,980.8**	3,160.8	**628.3**	390.5	**1,020.6**	1,392.0
Participation units issued (cancelled)	**3,383.1**	659.5	**(1,068.1)**	921.7	**(320.5)**	244.2	**(2,358.7)**	(1,190.9)
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(47.4)**	(18.2)	**(1,298.4)**	(1,548.1)	**(146.8)**	(139.6)	**(684.0)**	(595.8)
Other changes in non-controlling interests	–	–	–	–	–	–	**(44.4)**	36.9
Increase (decrease) in consolidated net assets	**3,382.5**	659.6	**1,614.3**	2,534.4	**161.0**	495.1	**(2,066.5)**	(357.8)
Consolidated net assets, beginning of year	**3,373.2**	2,713.6	**39,908.0**	37,373.6	**3,586.0**	3,090.9	**8,707.0**	9,064.8
Consolidated net assets, end of year	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,640.5**	8,707.0
Attributable to participation unit holders								
Net investment results	**46.8**	18.3	**3,980.8**	3,160.8	**628.3**	390.5	**1,020.6**	1,392.0
Less:								
Net investment results attributable to non-controlling interests	–	–	–	–	–	–	**6.3**	15.9
Net investment results attributable to participation unit holders	**46.8**	18.3	**3,980.8**	3,160.8	**628.3**	390.5	**1,014.3**	1,376.1
Participation units issued (cancelled)	**3,383.1**	659.5	**(1,068.1)**	921.7	**(320.5)**	244.2	**(2,358.7)**	(1,190.9)
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(47.4)**	(18.2)	**(1,298.4)**	(1,548.1)	**(146.8)**	(139.6)	**(684.0)**	(595.8)
Increase (decrease) in net holdings of funds	**3,382.5**	659.6	**1,614.3**	2,534.4	**161.0**	495.1	**(2,028.4)**	(410.6)
Net holdings of funds, beginning of year	**3,373.2**	2,713.6	**39,908.0**	37,373.6	**3,586.0**	3,090.9	**8,635.9**	9,046.5
Net holdings of funds, end of year	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,607.5**	8,635.9
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–
Bonds	–	–	**45,648.5**	48,400.3	**3,391.7**	3,534.9	–	–
Mortgages	–	–	–	–	–	–	**5,789.3**	7,490.9
Mortgage securities	–	–	–	–	–	–	**294.7**	544.6
Short-term investments	–	–	**1,662.2**	2,055.6	–	–	**28.1**	1,048.1
Notes receivable from entities under common control	–	–	–	–	**734.0**	741.0	–	–
Securities acquired under reverse repurchase agreements	**7,934.9**	3,209.2	**4,308.5**	10,802.6	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	46.3
ABTNs	–	–	–	–	–	–	–	–
	7,934.9	3,209.2	**51,619.2**	61,258.5	**4,125.7**	4,275.9	**6,112.1**	9,129.9
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	**10,743.7**	5,042.9	**733.8**	741.0	–	–
Notes payable to entities under common control	–	–	**2,278.2**	12,318.9	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	13.5
Short selling of securities	–	–	**3,833.2**	4,619.4	–	–	–	–
Derivative financial instruments	–	–	**10.7**	32.8	–	–	–	–
	–	–	**16,865.8**	22,014.0	**733.8**	741.0	–	13.5

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(in millions of dollars)	REAL RETURN BONDS (762)		INFRASTRUCTURE (782) (Issued July 1)		REAL ESTATE (710)		CANADIAN EQUITY (720)	
Consolidated net assets as at December 31	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	**22,196.3**	21,618.0	–	–
Equities and convertible securities	–	–	**6,520.8**	4,475.7	**4,065.1**	4,232.4	**11,594.4**	11,490.8
Bonds	**1,303.5**	975.3	**1,344.5**	501.3	–	–	–	–
Mortgages	–	–	–	–	**1,480.0**	1,199.0	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	–	–	**998.9**	1,174.4	–	1,559.8
Notes receivable from entities under common control	–	–	–	–	–	–	**12,325.8**	12,295.0
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	1,303.5	975.3	**7,865.3**	4,977.0	**28,720.3**	28,223.8	**23,920.2**	25,345.6
Demand deposits in the General Fund	**146.1**	3.5	–	147.7	**177.7**	–	**211.3**	–
Other assets	**2.7**	2.1	**39.0**	33.3	**2,689.5**	1,801.8	**44.6**	36.4
	1,452.3	980.9	**7,904.3**	5,158.0	**31,587.5**	30,025.6	**24,176.1**	25,382.0
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	**148.6**	6.5	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	**9.3**	12.8	**146.2**	130.4	–	–
Loans payable to entities under common control	–	–	–	–	**8,756.2**	8,175.1	–	–
Mortgage loans payable	–	–	–	–	**2,217.1**	2,835.0	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	–	–	**5,557.7**	5,573.0
Derivative financial instruments	–	–	**108.8**	98.8	**349.2**	300.7	**43.4**	40.2
	148.6	6.5	**118.1**	111.6	**11,469.7**	11,441.2	**5,601.1**	5,613.2
Advances from the General Fund	–	–	**866.7**	–	–	222.8	–	395.3
Other liabilities	**18.0**	38.7	**33.2**	17.3	**817.1**	893.0	**83.6**	111.0
	166.6	45.2	**1,018.0**	128.9	**12,286.8**	12,557.0	**5,684.7**	6,119.5
Consolidated net assets	**1,285.7**	935.7	**6,886.3**	5,029.1	**19,301.7**	17,468.6	**18,491.4**	19,262.5
Less:								
Non-controlling interests	–	–	**1,160.8**	709.9	**1,303.7**	994.8	–	–
Net holdings of funds	**1,285.7**	935.7	**5,725.5**	4,319.2	**17,998.0**	16,474.0	**18,491.4**	19,262.5
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	**37.9**	26.5	**216.7**	83.5	**760.1**	725.2	**570.7**	459.0
Other income	–	–	**2.4**	2.3	–	–	**3.7**	–
	37.9	26.5	**219.1**	85.8	**760.1**	725.2	**574.4**	459.0
Operating expenses	**0.8**	0.5	**17.0**	11.4	**17.4**	17.2	**43.9**	40.0
Expenses related to repositioning of information technology and write-offs of intangible assets	–	0.1	–	2.3	–	0.9	–	5.5
Income before the following items	**37.0**	25.9	**202.1**	72.1	**742.7**	707.1	**530.5**	413.5
Interest on notes payable to entities under common control	–	–	–	–	–	–	–	0.3
Interest on loans payable	–	–	–	–	–	–	–	–
Net investment income (loss)	**37.0**	25.9	**202.1**	72.1	**742.7**	707.1	**530.5**	413.2
Gains (losses) on sale of investments	**98.8**	22.3	**(57.9)**	36.7	**141.0**	326.2	**(1,468.3)**	1,089.2
Unrealized increases (decreases) in value of investments and liabilities related to investments	**66.6**	32.3	**1,234.2**	417.7	**1,108.2**	1,068.0	**(1,195.6)**	1,054.4
Net investment results	**202.4**	80.5	**1,378.4**	526.5	**1,991.9**	2,101.3	**(2,133.4)**	2,556.8
Participation units issued (cancelled)	**184.6**	228.9	**530.8**	3,932.2	**380.5**	972.0	**1,992.8**	112.7
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(37.0)**	(25.9)	**(168.0)**	(59.5)	**(690.6)**	(646.3)	**(530.5)**	(413.2)
Other changes in non-controlling interests	–	–	**116.0**	629.9	**151.3**	(55.6)	–	–
Increase (decrease) in consolidated net assets	**350.0**	283.5	**1,857.2**	5,029.1	**1,933.1**	2,371.4	**(771.1)**	2,256.3
Consolidated net assets, beginning of year	**935.7**	652.2	**5,029.1**	–	**17,468.6**	15,097.2	**19,262.5**	17,006.2
Consolidated net assets, end of year	**1,285.7**	935.7	**6,886.3**	5,029.1	**19,301.7**	17,468.6	**18,491.4**	19,262.5
Attributable to participation unit holders								
Net investment results	**202.4**	80.5	**1,378.4**	526.5	**1,991.9**	2,101.3	**(2,133.4)**	2,556.8
Less:								
Net investment results attributable to non-controlling interests	–	–	**334.9**	80.0	**157.8**	141.2	–	–
Net investment results attributable to participation unit holders	**202.4**	80.5	**1,043.5**	446.5	**1,834.1**	1,960.1	**(2,133.4)**	2,556.8
Participation units issued (cancelled)	**184.6**	228.9	**530.8**	3,932.2	**380.5**	972.0	**1,992.8**	112.7
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(37.0)**	(25.9)	**(168.0)**	(59.5)	**(690.6)**	(646.3)	**(530.5)**	(413.2)
Increase (decrease) in net holdings of funds	**350.0**	283.5	**1,406.3**	4,319.2	**1,524.0**	2,285.8	**(771.1)**	2,256.3
Net holdings of funds, beginning of year	**935.7**	652.2	**4,319.2**	–	**16,474.0**	14,188.2	**19,262.5**	17,006.2
Net holdings of funds, end of year	**1,285.7**	935.7	**5,725.5**	4,319.2	**17,998.0**	16,474.0	**18,491.4**	19,262.5
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	**18,899.0**	20,092.3	–	–
Equities and convertible securities	–	–	**4,887.5**	4,074.0	**3,945.0**	4,036.1	**10,171.9**	8,400.4
Bonds	**1,157.4**	895.8	**1,269.9**	483.0	–	–	–	–
Mortgages	–	–	–	–	**1,495.5**	1,220.7	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	–	–	**998.9**	1,174.5	–	1,548.3
Notes receivable from entities under common control	–	–	–	–	–	–	**12,325.8**	12,295.0
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	1,157.4	895.8	**6,157.4**	4,557.0	**25,318.3**	26,523.6	**22,497.7**	22,243.7
Liabilities related to investments								
Securities sold under repurchase agreements	**148.6**	6.5	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	**9.4**	13.2	**147.2**	127.7	–	–
Loans payable to entities under common control	–	–	–	–	**8,303.6**	8,281.4	–	–
Mortgage loans payable	–	–	–	–	**2,215.6**	2,842.9	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	–	–	**5,221.0**	4,749.3
Derivative financial instruments	–	–	**52.7**	96.2	**22.7**	3.2	–	–
	148.6	6.5	**62.1**	109.4	**10,689.1**	11,255.2	**5,221.0**	4,749.3

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(in millions of dollars)	GLOBAL EQUITY (735) (Created April 1)		QUÉBEC INTERNATIONAL (761)		U.S. Equity (731) (Created April 1)		EAFE Equity (730) (Created April 1)	
Consolidated net assets as at December 31	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	**14,109.4**	9,520.1	–	8.1	**8,112.2**	547.0	**9,105.3**	9,722.6
Bonds	–	9.1	**3,562.9**	6,843.4	–	–	–	–
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	**8.6**	30.2	–	–	–	–	–	0.1
Notes receivable from entities under common control	–	–	**1,544.2**	1,972.2	–	5,279.0	–	–
Securities acquired under reverse repurchase agreements	–	–	**112.7**	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	14,118.0	9,559.4	**5,219.8**	8,823.7	**8,112.2**	5,826.0	**9,105.3**	9,722.7
Demand deposits in the General Fund	–	–	**1.5**	219.7	–	–	–	–
Other assets	**44.6**	49.2	**85.1**	66.0	**13.6**	1.1	**24.3**	19.6
	14,162.6	9,608.6	**5,306.4**	9,109.4	**8,125.8**	5,827.1	**9,129.6**	9,742.3
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	**747.0**	281.1	–	–	–	–
Notes payable to entities under common control	**770.0**	1,444.7	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	**2,030.3**	2,082.5	–	–	–	–	–	–
Derivative financial instruments	**147.3**	99.3	**9.9**	0.3	–	–	–	–
	2,947.6	3,626.5	**756.9**	281.4	–	–	–	–
Advances from the General Fund	**298.8**	58.7	–	–	**5.5**	66.2	**25.4**	4.8
Other liabilities	**74.0**	57.0	**9.4**	398.2	**14.4**	0.3	**10.0**	8.5
	3,320.4	3,742.2	**766.3**	679.6	**19.9**	66.5	**35.4**	13.3
Consolidated net assets	**10,842.2**	5,866.4	**4,540.1**	8,429.8	**8,105.9**	5,760.6	**9,094.2**	9,729.0
Less:								
Non-controlling interests	–	–	–	–	–	–	–	–
Net holdings of funds	**10,842.2**	5,866.4	**4,540.1**	8,429.8	**8,105.9**	5,760.6	**9,094.2**	9,729.0
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	**224.0**	99.7	**199.4**	314.7	**109.6**	22.5	**326.8**	185.7
Other income	–	–	–	–	–	–	–	–
	224.0	99.7	**199.4**	314.7	**109.6**	22.5	**326.8**	185.7
Operating expenses	**27.8**	11.3	**21.8**	32.0	**4.4**	3.9	**8.6**	7.3
Expenses related to repositioning of information technology and write-offs of intangible assets	–	2.5	–	5.1	–	0.7	–	1.2
Income before the following items	**196.2**	85.9	**177.6**	277.6	**105.2**	17.9	**318.2**	177.2
Interest on notes payable to entities under common control	**13.1**	6.3	–	0.1	–	–	–	–
Interest on loans payable	–	–	–	–	–	–	–	–
Net investment income (loss)	**183.1**	79.6	**177.6**	277.5	**105.2**	17.9	**318.2**	177.2
Gains (losses) on sale of investments	**187.8**	(108.7)	**(218.4)**	792.3	**141.7**	333.9	**47.2**	(99.1)
Unrealized increases (decreases) in value of investments and liabilities related to investments	**(1,053.5)**	534.1	**127.3**	109.6	**72.1**	20.3	**(1,327.5)**	497.1
Net investment results	**(682.6)**	505.0	**86.5**	1,179.4	**319.0**	372.1	**(962.1)**	575.2
Participation units issued (cancelled)	**5,841.5**	5,441.0	**(3,798.6)**	(5,271.4)	**2,131.5**	5,406.4	**645.5**	9,331.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(183.1)**	(79.6)	**(177.6)**	(277.5)	**(105.2)**	(17.9)	**(318.2)**	(177.2)
Other changes in non-controlling interests	–	–	–	–	–	–	–	–
Increase (decrease) in consolidated net assets	**4,975.8**	5,866.4	**(3,889.7)**	(4,369.5)	**2,345.3**	5,760.6	**(634.8)**	9,729.0
Consolidated net assets, beginning of year	**5,866.4**	–	**8,429.8**	12,799.3	**5,760.6**	–	**9,729.0**	–
Consolidated net assets, end of year	**10,842.2**	5,866.4	**4,540.1**	8,429.8	**8,105.9**	5,760.6	**9,094.2**	9,729.0
Attributable to participation unit holders								
Net investment results	**(682.6)**	505.0	**86.5**	1,179.4	**319.0**	372.1	**(962.1)**	575.2
Less:								
Net investment results attributable to non-controlling interests	–	–	–	–	–	–	–	–
Net investment results attributable to participation unit holders	**(682.6)**	505.0	**86.5**	1,179.4	**319.0**	372.1	**(962.1)**	575.2
Participation units issued (cancelled)	**5,841.5**	5,441.0	**(3,798.6)**	(5,271.4)	**2,131.5**	5,406.4	**645.5**	9,331.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(183.1)**	(79.6)	**(177.6)**	(277.5)	**(105.2)**	(17.9)	**(318.2)**	(177.2)
Increase (decrease) in net holdings of funds	**4,975.8**	5,866.4	**(3,889.7)**	(4,369.5)	**2,345.3**	5,760.6	**(634.8)**	9,729.0
Net holdings of funds, beginning of year	**5,866.4**	–	**8,429.8**	12,799.3	**5,760.6**	–	**9,729.0**	–
Net holdings of funds, end of year	**10,842.2**	5,866.4	**4,540.1**	8,429.8	**8,105.9**	5,760.6	**9,094.2**	9,729.0
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	**14,634.0**	8,893.1	–	–	**8,019.8**	447.4	**9,935.8**	9,225.6
Bonds	–	10.0	**3,326.8**	6,752.7	–	–	–	–
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	–	–	–	–	–	–
Notes receivable from entities under common control	–	–	**1,544.2**	1,971.9	–	5,358.2	–	–
Securities acquired under reverse repurchase agreements	–	–	**112.7**	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	14,634.0	8,903.1	**4,983.7**	8,724.6	**8,019.8**	5,805.6	**9,935.8**	9,225.6
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	**747.0**	281.1	–	–	–	–
Notes payable to entities under common control	**770.0**	1,444.7	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	**2,168.2**	2,055.9	–	–	–	–	–	–
Derivative financial instruments	**6.0**	3.7	–	–	–	–	–	–
	2,944.2	3,504.3	**747.0**	281.1	–	–	–	–

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(in millions of dollars)	EMERGING MARKETS EQUITY (732)		PRIVATE EQUITY (786)		HEDGE FUNDS (776)		ASSET ALLOCATION (771)	
Consolidated net assets as at December 31	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	**5,890.2**	5,809.3	**15,360.9**	16,256.9	**3,179.4**	3,243.0	**96.2**	32.8
Bonds	–	–	**517.5**	461.2	–	–	**194.7**	79.8
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	**0.2**	–	**8.7**	131.8	–	8.0	**686.7**	159.6
Notes receivable from entities under common control	–	–	–	–	–	–	–	–
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	5,890.4	5,809.3	**15,907.1**	16,849.9	**3,179.4**	3,251.0	**967.6**	272.2
Demand deposits in the General Fund	–	–	–	713.9	**95.8**	155.4	**1,205.5**	667.8
Other assets	**9.7**	6.3	**32.7**	37.9	**4.4**	6.1	**1.4**	2.8
	5,900.1	5,815.6	**15,939.8**	17,601.7	**3,279.6**	3,412.5	**2,174.5**	942.8
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	**0.7**	6.2	**60.4**	91.9	–	–	–	–
Derivative financial instruments	–	–	**123.5**	3.3	**0.4**	99.3	**949.1**	308.1
	0.7	6.2	**183.9**	95.2	**0.4**	99.3	**949.1**	308.1
Advances from the General Fund	**2.7**	6.1	**9.9**	–	–	–	–	–
Other liabilities	**15.6**	4.2	**21.5**	59.0	**7.5**	7.4	**3.7**	–
	19.0	16.5	**215.3**	154.2	**7.9**	106.7	**952.8**	308.1
Consolidated net assets	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Less:								
Non-controlling interests	–	–	–	–	–	–	–	–
Net holdings of funds	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	**143.9**	110.5	**289.2**	244.5	**12.4**	0.3	**7.2**	(0.1)
Other income	–	–	**43.6**	2.1	–	–	–	–
	143.9	110.5	**332.8**	246.6	**12.4**	0.3	**7.2**	(0.1)
Operating expenses	**9.5**	14.0	**34.7**	25.6	**11.0**	10.2	**14.0**	9.5
Expenses related to repositioning of information technology and write-offs of intangible assets	–	1.7	–	2.7	–	1.2	–	1.3
Income before the following items	**134.4**	94.8	**298.1**	218.3	**1.4**	(11.1)	**(6.8)**	(10.9)
Interest on notes payable to entities under common control	–	–	–	1.2	–	–	–	–
Interest on loans payable	–	–	–	2.4	–	–	–	–
Net investment income (loss)	**134.4**	94.8	**298.1**	214.7	**1.4**	(11.1)	**(6.8)**	(10.9)
Gains (losses) on sale of investments	**35.9**	235.0	**212.6**	849.3	**107.2**	135.4	**94.0**	(46.3)
Unrealized increases (decreases) in value of investments and liabilities related to investments	**(1,210.2)**	278.5	**602.5**	2,241.7	**(104.2)**	75.6	**34.0**	(20.0)
Net investment results	**(1,039.9)**	608.3	**1,113.2**	3,305.7	**4.4**	199.9	**121.2**	(77.2)
Participation units issued (cancelled)	**1,256.3**	347.3	**(2,538.1)**	3,121.6	**(37.1)**	(731.7)	**459.0**	201.6
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(134.4)**	(94.8)	**(298.1)**	(214.7)	**(1.4)**	11.1	**6.8**	10.9
Other changes in non-controlling interests	–	–	–	–	–	–	–	–
Increase (decrease) in consolidated net assets	**82.0**	860.8	**(1,723.0)**	6,212.6	**(34.1)**	(520.7)	**587.0**	135.3
Consolidated net assets, beginning of year	**5,799.1**	4,938.3	**17,447.5**	11,234.9	**3,305.8**	3,826.5	**634.7**	499.4
Consolidated net assets, end of year	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Attributable to participation unit holders								
Net investment results	**(1,039.9)**	608.3	**1,113.2**	3,305.7	**4.4**	199.9	**121.2**	(77.2)
Less:								
Net investment results attributable to non-controlling interests	–	–	–	–	–	–	–	–
Net investment results attributable to participation unit holders	**(1,039.9)**	608.3	**1,113.2**	3,305.7	**4.4**	199.9	**121.2**	(77.2)
Participation units issued (cancelled)	**1,256.3**	347.3	**(2,538.1)**	3,121.6	**(37.1)**	(731.7)	**459.0**	201.6
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(134.4)**	(94.8)	**(298.1)**	(214.7)	**(1.4)**	11.1	**6.8**	10.9
Increase (decrease) in net holdings of funds	**82.0**	860.8	**(1,723.0)**	6,212.6	**(34.1)**	(520.7)	**587.0**	135.3
Net holdings of funds, beginning of year	**5,799.1**	4,938.3	**17,447.5**	11,234.9	**3,305.8**	3,826.5	**634.7**	499.4
Net holdings of funds, end of year	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	**5,929.4**	4,638.1	**17,203.9**	18,777.5	**3,210.0**	3,070.5	**49.6**	11.6
Bonds	–	–	**694.8**	660.9	–	–	**0.4**	–
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	**65.6**	199.1	–	8.0	**53.5**	49.5
Notes receivable from entities under common control	–	–	–	–	–	–	–	–
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	5,929.4	4,638.1	**17,964.3**	19,637.5	**3,210.0**	3,078.5	**103.5**	61.1
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	**0.7**	6.1	**51.4**	90.5	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	**59.4**	37.3
	0.7	6.1	**51.4**	90.5	–	–	**59.4**	37.3

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(in millions of dollars) ABTNs (772)

Consolidated net assets as at December 31	2011	2010
Assets		
Investments at fair value		
Real estate holdings	–	–
Equities and convertible securities	–	–
Bonds	–	–
Mortgages	–	–
Mortgage securities	–	–
Short-term investments	–	–
Notes receivable from entities under common control	–	–
Securities acquired under reverse repurchase agreements	–	–
Real estate held for resale	–	–
ABTNs	8,931.8	8,941.6
	8,931.8	8,941.6
Demand deposits in the General Fund	2.6	3.4
Other assets	37.3	37.4
	8,971.7	8,982.4
Liabilities		
Liabilities related to investments		
Securities sold under repurchase agreements	–	–
Notes payable to entities under common control	9,652.6	10,004.1
Loans payable	1,744.7	1,503.3
Loans payable to entities under common control	–	–
Mortgage loans payable	–	–
Commercial mortgage-backed securities (CMBS)	–	–
Short selling of securities	–	–
Derivative financial instruments	32.9	23.6
	11,430.2	11,531.0
Advances from the General Fund	–	–
Other liabilities	61.3	62.2
	11,491.5	11,593.2
Consolidated net assets	(2,519.8)	(2,610.8)
Less:		
Non-controlling interests	–	–
Net holdings of funds	(2,519.8)	(2,610.8)

Consolidated statement of income and changes in net assets for years ended December 31		
Income		
Investment income	153.6	111.2
Other income	–	–
	153.6	111.2
Operating expenses	10.0	9.6
Expenses related to repositioning of information technology and write-offs of intangible assets	–	0.8
Income before the following items	143.6	100.8
Interest on notes payable to entities under common control	127.2	82.9
Interest on loans payable	18.4	8.7
Net investment income (loss)	(2.0)	9.2
Gains (losses) on sale of investments	(23.5)	(499.8)
Unrealized increases (decreases) in value of investments and liabilities related to investments	118.1	999.6
Net investment results	92.6	509.0
Participation units issued (cancelled)	(3.6)	2,011.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	2.0	(9.2)
Transfer of unrealized decrease in value as at January 1, 2010		(5,122.0)
Other changes in non-controlling interests	–	–
Increase (decrease) in consolidated net assets	91.0	(2,610.8)
Consolidated net assets, beginning of year	(2,610.8)	–
Consolidated net assets, end of year	(2,519.8)	(2,610.8)
Attributable to participation unit holders		
Net investment results	92.6	509.0
Less:		
Net investment results attributable to non-controlling interests	–	–
Net investment results attributable to participation unit holders	92.6	509.0
Participation units issued (cancelled)	(3.6)	2,011.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	2.0	(9.2)
Transfer of unrealized decrease in value as at January 1, 2010	–	(5,122.0)
Increase (decrease) in net holdings of funds	91.0	(2,610.8)
Net holdings of funds, beginning of year	(2,610.8)	–
Net holdings of funds, end of year	(2,519.8)	(2,610.8)

Investments and liabilities related to investments at cost as at December 31		
Investments		
Real estate holdings	–	–
Equities and convertible securities	–	–
Bonds	–	–
Mortgages	–	–
Mortgage securities	–	–
Short-term investments	–	–
Notes receivable from entities under common control	–	–
Securities acquired under reverse repurchase agreements	–	–
Real estate held for resale	–	–
ABTNs	12,925.1	13,049.6
	12,925.1	13,049.6
Liabilities related to investments		
Securities sold under repurchase agreements	–	–
Notes payable to entities under common control	9,652.6	10,005.0
Loans payable	1,766.6	1,511.7
Loans payable to entities under common control	–	–
Mortgage loans payable	–	–
Commercial mortgage-backed securities (CMBS)	–	–
Short selling of securities	–	–
Derivative financial instruments	–	–
	11,419.2	11,516.7

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Michael Sabia, President and Chief Executive Officer of the Caisse de dépôt et placement du Québec, certify that:

1. **Review**: I have reviewed the Combined financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of the Caisse de dépôt et placement du Québec (the "Caisse") for the year ended December 31, 2011.

2. **No false or misleading information**: To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation**: To the best of my knowledge, having exercised reasonable diligence, the Combined financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of the Caisse as at the closing dates of the periods presented in the Annual Filings, as well as the results of its operations for those years.

4. **Responsibility**: I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Caisse, in accordance with the responsibilities entrusted to me under section 5.12 of an Act respecting the Caisse.

5. **Design**: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, as at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to the Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.

      ii) Information required to be disclosed by the Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the Combined financial statements have been prepared, with a view to publication of financial information, in accordance with Canadian generally accepted accounting principles.

5.1. **Control framework**: The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

5.2. **ICFR material weakness relating to design**: Not applicable.

5.3. **Limitation of scope of design**: Not applicable.

6. **Evaluation**: I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report my conclusions about the effectiveness of this evaluation.

   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report the following information:

      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.

      ii) Description of any material weakness relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes in ICFR**: The Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2011 and ending on December 31, 2011 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee**: I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of the Caisse or its Audit Committee any fraud that involves management or other employees who have a significant role in the ICFR.

President and Chief Executive Officer

MICHAEL SABIA

April 11, 2012

FINANCIAL CERTIFICATE OF THE EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

I, Maarika Paul, Executive Vice-President and Chief Financial Officer of the Caisse de dépôt et placement du Québec, certify that:

1. **Review**: I have reviewed the Combined financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the ("Annual Filings") of the Caisse de dépôt et placement du Québec (the "Caisse") for the year ended December 31, 2011.

2. **No false or misleading information**: To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation**: To the best of my knowledge, having exercised reasonable diligence, the Combined financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of the Caisse as at the closing dates of the periods presented in the Annual Filings, as well as the results of its operations for those years.

4. **Responsibility**: I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Caisse, in accordance with the responsibilities entrusted to me under section 5.12 of an Act respecting the Caisse.

5. **Design**: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, as at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to the Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.

      ii) Information required to be disclosed by the Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the Combined financial statements have been prepared, with a view to publication of financial information, in accordance with Canadian generally accepted accounting principles.

5.1. **Control framework**: The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

5.2. **ICFR material weakness relating to design**: Not applicable.

5.3. **Limitation of scope of design**: Not applicable.

6. **Evaluation**: I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report my conclusions about the effectiveness of this evaluation.

   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report the following information:

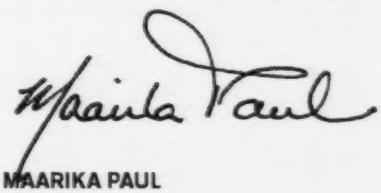
      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.

      ii) Description of any material weakness relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes in ICFR**: The Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2011 and ending on December 31, 2011 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee**: I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of the Caisse or its Audit Committee any fraud that involves management or other employees who have a significant role in the ICFR.

Executive Vice-President and Chief Financial Officer



MAARIKA PAUL

April 11, 2012

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2011, the Chief Financial Officer oversaw efforts to update existing documents and evaluate the design and effectiveness of internal control over financial reporting, and the management committee approved the methodology for evaluating key controls. The purpose of this evaluation of internal controls over the Caisse's main financial processes was to ensure that the Caisse meets its quality objectives related to financial reporting, in all material respects.

The framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) usually adopted by North American corporations was used to evaluate the design and effectiveness of internal control over financial reporting. This undertaking enabled the Disclosure Committee to conclude that the design of control over financial reporting is adequate and effective to provide reasonable assurance with respect to the reliability of the financial information presented in the Annual Filings, as defined in the Caisse's Financial Certification Policy, and that the Caisse's Combined financial statements are prepared in accordance with Canadian generally accepted accounting principles.

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF FINANCIAL REPORTING CONTROLS AND PROCEDURES

Under the Caisse's Financial Certification Policy, the design and effectiveness of disclosure controls and procedures pertaining to Annual Filings, i.e. the Combined financial statements, the schedules of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Chief Financial Officer also oversaw efforts to update existing documents and evaluate the design and effectiveness of disclosure controls and procedures, and the management committee also approved the methodology for evaluating key controls.

As at December 31, 2011, based on the evaluation, disclosure controls and procedures are adequate and effective, and provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and the Chief Financial Officer, to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2011 Annual Filings before their public disclosure.

General Notes

1. The Caisse's activities comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec[1] and investment industry practices. Its financial statements are prepared in accordance with Canadian generally accepted accounting principles. Each year, the Caisse's co-auditors, the Auditor General and Ernst & Young s.r.l./S.E.N.C.R.L., audit the financial statements, the compliance of operations with the law, regulations, policies and guidelines to the extent they believe is required.
2. The 2011 Annual Report Additional Information is an integral part of the 2011 Annual Report and presents, in the first section, the Tables of Returns as at December 31, 2011, relating to the composites of the Caisse's depositors' accounts. The tables and calculations have been audited as at December 31, 2011, by the firm Samson Bélair/Deloitte & Touche s.e.n.c.r.l. for compliance with Global Investment Performance Standards (GIPS®).
3. In this Annual Report, depositors' net assets and net investment results are defined as depositors' net holdings and net investment results attributable to depositors as presented in the Combined Financial Statements of the Caisse de dépôt et placement du Québec.
4. The specialized portfolios' returns represent the time-weighted rate of return.
5. The benchmark indexes for the asset classes and overall portfolio are based on the weighted average of the benchmark indexes for the specialized portfolios.
6. Unless otherwise stated, returns, expressed as a percentage, are presented before operating expenses and other fees, but net of transaction fees, and are annualized for periods of more than one year. They include the return on cash and cash equivalents, and take into account, depending on the case, a hedge against currency fluctuation risk. The return differential related to the operating expenses of each specialized portfolio are presented in the Tables of returns of the 2011 Annual Report Additional Information.
7. Unless otherwise stated, returns and net investment results in dollars are cumulative and net of operating expenses and other fees.
8. Certain returns are expressed in basis points (b.p.). Therefore, 100 basis points equal 1.00% and one basis point equals 0.01%.
9. Unless otherwise stated, all figures are in Canadian dollars. The letters "M" and "B" used with dollar amounts designate, respectively, "millions" and "billions."
10. Totals (figures or percentages) may vary due to the rounding of figures.
11. Unless otherwise stated, all data in tables and figures are from studies conducted by the Caisse.
12. The tables listing the top 10 investments present, in alphabetical order, the main cash positions based on information shown in Tables 8, 9, 10 and 11 of the 2011 Annual Report Additional Information.
13. For many years, the Caisse has looked at the location of the company's or security issuer's headquarters in order to decide if it is Québec-based. For real estate, it refers to the location of the asset.

    This classification system, which is widely used in the fund management industry, contains certain biases. Some companies are considered as Québec-based, even if their core business is outside Québec, while other companies operating extensively in Québec are not taken into account if their headquarters is located outside the province.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on our website.

- The 2011 Annual Report and the 2011 Annual Report Additional Information are available on our website: www.lacaisse.com.
- *Le Rapport annuel 2011 et le document Renseignements additionnels au rapport annuel 2011 sont accessibles en ligne sur notre site Web : www.lacaisse.com.*
- Legal Deposit – Bibliothèque et Archives nationales du Québec, 2011
- ISSN 1705-6446
- ISSN online 1705-6454

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